THE McKELL INSTITUTE

CHOOSING OPPORTUNITY

A POLICY BLUEPRINT FOR A FAIRER AUSTRALIA

PROFESSOR RICHARD HOLDEN | EDWARD CAVANOUGH

SEPTEMBER 2016

ABOUT THE MCKELL INSTITUTE

The McKell Institute is an independent, not-for-profit, public policy institute dedicated to developing practical policy ideas and contributing to public debate. The McKell Institute takes its name from New South Wales' wartime Premier and Governor-General of Australia, William McKell.

William McKell made a powerful contribution to both New South Wales and Australian society through significant social, economic and environmental reforms.

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Australia's proudest achievement is its strong and equitable economy that has enabled the flourishing of a large middle class during the second half of the twentieth century. Since the baby boomer generation, Australia has seen constant increases in living standards, several long and sustained periods of economic growth and steadily increasing wages as a result. But while the Australian middle class is still strong, many average Australians are being increasingly challenged in their daily lives, as cost of living pressures rise and wages stagnate.

It is vital now that Australia doesn't rest on its laurels of past successful periods of economic growth, but enacts new, creative and bold reforms that ensure the growth of the Australian middle class into the future.

This report aims to offer such a reform agenda. It explains how equality of opportunity and a strong, growing middle class can have profound benefits to the Australian economy, but demonstrates that in recent years, the extension of equal opportunity and the growth of the middle class have faced increased pressure. Today, lower and middle income families are finding it harder to make ends meet, are feeling the pressures of an increasingly competitive and fluid jobs market, and are being squeezed out of the housing market as property prices soar.

In short, many everyday Australians are doing it tough, and for those stuck on lower or middle incomes, the economic achievements throughout Australia's history offer little comfort to the difficulties they face in contemporary society.

This report tables twenty-six key policy reform options aimed at strengthening opportunity for everyday Australians, and ensuring the economy continues to grow in a manner that benefits all.

The Hon John Watkins
CHAIR,
MCKELL INSTITUTE

Sam Crosby
EXECUTIVE DIRECTOR,
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EXECUTIVE SUMMARY

The strength of Australia's economy and the opportunities it affords everyday citizens in a global context today is unarguable: our country has enjoyed over two decades of economic growth, with all classes of Australians enjoying the associated benefits. But it is becoming increasingly clear to economists, policy makers and the general public that the Australian economy is undergoing a challenging transformation. And making sure everyday Australians continue to benefit from future economic growth requires constant, honest appraisal of Australia's existing policy settings, and a clear focus on important, equitable economic reform.

This report provides a policy blueprint for ensuring greater equality of opportunity in Australia and promoting the economy's continued growth into the future. The strength of today's middle class – the backbone of the Australian economy – is in large part due to the hard policy decisions that were made throughout Australia's recent modern history. Australia is often dubbed the 'lucky' country, but in fact, the strong economic growth and rise in living standards Australians are now accustomed to is not simply the result of good fortune. Active public policy choices - ones that suited the challenges of the previous generation – helped pave the way to the stable period of economic growth that is only now under threat.

Today, new global challenges are emerging that risk the future stability of Australia's economy and society. Bold, creative and innovative new reform agendas must now be conceived, debated and legislated. Key areas of public policy need to be reexamined and reformed to orient Australia's economic and social trajectory towards a stable and prosperous future.

This report begins by highlighting eight key priority areas for reform that will help grow and secure the middle class of Australia: prioritising wage growth, ensuring strong and equitable superannuation growth, improving the access to and quality of education, improving housing affordability, ensuring equal access to transport services, strategically investing in the 'new economy', modernising Australia's healthcare system, and reorienting Australia's taxation system towards a more equitable setting.

The first section of this report defines what equal opportunity means in the Australian context, and what is really meant by the term 'middle class'. A distinction is drawn between the global middle class and Australia's middle class. By international standards, almost all Australians are in the global middle class, which is often crudely determined through measurements such as car ownership or living above the global poverty line.

Clearly, such measurements are not relevant in the Australian context. For this purpose, this report defines the Australia's middle class as those within the 30th and 80th income percentile. An average Australian at the mid point of this grouping – the 55th percentile – earns approximately $1,650 per week. It must be acknowledged, however, that many Australians also live well below this income and wealth bracket. The policy proposals tabled in this report aim to improve opportunities and equalities for all Australians, including those earning incomes below what is accepted as 'middle class' in Australia, and aims to provide pathways to ensure that those living well below the 30th income percentile are extended a genuine opportunity to enter the statistical middle class.

Section 2 of this report then examines the economic potential that is associated with lifting more Australians into a growing middle class. Several key economic benefits are outlined. Minimising financial stress and job insecurity could benefit the Australian economy by up to $10 billion per annum. An increase in social mobility could similarly realise enormous economic benefits: if the bottom two quintiles of the middle class moved towards the middle income point of the middle class, this could add $16.1 billion to the economy.

Section 3 then places the Australian middle class in a global context. It finds that while Australia's middle class is still strong by global standards, there is strong evidence to suggest middle class Australians are increasingly feeling the pressure of growing cost of living and stalled wage growth. In a global context, Australian average wages have indeed gone backwards since 2012, despite labour productivity and multifactor productivity – two measurements that determine how productive Australia's workforce is –rising year on year. In short, Australians are working harder, but their wages are stalling, resulting in middle and lower income families experiencing increasing financial pressure.

Section 4 outlines the eight key priority areas for reform tabled, and details the twenty-six policy recommendations outlined in this report. This policy blueprint for a fairer Australia identifies the areas of public policy that are in most urgent need of reform to ensure Australia's unprecedented two decades of economic growth continues into the future, and that the benefits of this growth are oriented towards expanding opportunity to all Australians.

It is important to recognise that of the recommendations in this report, not all require significant new expenditures from government. Rather, a focus on better investing existing resources and encouraging collaboration with other sources of revenue in order to achieve the best outcomes per dollar of government expenditure possible is tabled. In an era of fiscal consolidation at the Federal level in Australia, it is necessary to consider creative alternative funding methods for key areas of public policy reform.

Priority areas 5, 6 and 7 of this report – ensuring equitable transport services, investing in the 'new economy', and modernising the healthcare system – are specific areas of reform in which creative collaborations with private sector stakeholders can generate greater outcomes for Australians without unreasonably burdening the tax payer. Similarly, reforming tax concessions such as negative gearing can generate significant revenue for government into the future, reducing government debt and freeing more resources for targeted investments in the future of Australia's middle class.

It is clear that growing the Australian middle class is the key to future economic prosperity in Australia. But the growth in living standards and wages that has been seen in Australia since the 1980s should not be taken for granted. It was an active choice by the governments of the day. Today's economic circumstances demand a similar choice: whether to focus on opportunity for all, or to avoid the difficult reform decisions that will facilitate equitable growth in the future.

To best achieve an equitable and prosperous economy for the next generation of Australians, sensible, informed policy choices must be made today to ensure thea greater access to and growth of Australia's middle class into the future. This report aims to offer such a policy blueprint: a suite of policy options that are aimed squarely towards bolstering opportunity for all, growing middle class incomes, providing better and more efficient access to vital services, and ensuring fair and stable growth into the future.

PRIORITY AREAS & RECOMMENDATIONS

A POLICY BLUEPRINT FOR A FAIRER AUSTRALIA

26 policy recommendations that will lead to equality of opportunity for Australians in the twenty-first century.

PRIORITY AREA 1

ENSURING STRONG & EQUITABLE WAGE GROWTH

- **Recommendation 1:** Maintain a stable bargaining system that provides certainty and stability for businesses and workers.
- **Recommendation 2:** Ensuring appropriate compensation for the timing of work, while accommodating for contemporary labour market demands.
- **Recommendation 3:** Close the earnings and participation gap between men and women.
- **Recommendation 4:** Take steps to improve job security.

PRIORITY AREA 2

ENSURING STRONG & EQUITABLE SUPERANNUATION GROWTH

- **Recommendation 5:** Closing the Gender Superannuation Gap.
- **Recommendation 6:** Examine the viability of greater superannuation concessions and benefits for those working in manual labour.
- **Recommendation 7:** Putting superannuation back on the path to 12 per cent.[1]
- **Recommendation 8:** Reform superannuation taxation by reducing super concessions for the wealthiest Australians, and consider allocating a percentage of the revenue generated back towards the funding of equitable superannuation polices, such as initiatives aimed at closing the Super Gender Gap.
- **Recommendation 9:** Ensure superannuation is paid on every dollar earned.

PRIORITY AREA 3

IMPROVING ACCESS TO & QUALITY OF EDUCATION

- **Recommendation 10:** Improving access to and quality of education and ensuring the long-term affordability of higher education.
- **Recommendation 11:** Improving the affordability and accessibility of early education and child care.
- **Recommendation 12:** Reforming early education to improve early learning outcomes.
- **Recommendation 13:** Adopt the Gonksi reforms in full.

PRIORITY AREA 4

IMPROVING HOUSING AFFORDABILITY

- **Recommendation 14:** Allow home owners the choice between an up front stamp duty tax, or a more equitable ongoing land tax.
- **Recommendation 15:** Orient negative gearing concessions to new properties only.

PRIORITY AREA 5

ENSURING EQUAL ACCESS TO TRANSPORT SERVICES

- **Recommendation 16:** Launch a national inquiry into transport disadvantage.
- **Recommendation 17:** Harmonise state and federal government infrastructure priorities by strengthening the independence of Infrastructure Australia.
- **Recommendation 18:** Financing more infrastructure through funding measures like Value Capture.

PRIORITY AREA 6

INVESTING IN THE 'NEW ECONOMY'

- **Recommendation 19:** A better national focus on STEM education at all education levels.
- **Recommendation 20:** Allocate more resources towards retraining and upskilling the existing workforce.
- **Recommendation 21:** Invest more government resources across the entire innovation chain, from early research and development to business development and ongoing support.
- **Recommendation 22:** Increase the percentage of GDP expenditure on research and development to above the OECD average of 2.4 per cent.

PRIORITY AREA 7

MODERNISING AUSTRALIA'S HEALTHCARE SYSTEM

- **Recommendation 23:** Government should invest greater resources into the harmonisation of healthcare data sets to ensure faster and more accurate patient services and a more efficient and affordable healthcare system.

PRIORITY AREA 8

REFORMING AUSTRALIA'S TAX SYSTEM TO IMPROVE FAIRNESS & RESTORE PUBLIC CONFIDENCE IN GOVERNMENT

- **Recommendation 24:** Prioritise fairness and equity in the tax system to boost public confidence.
- **Recommendation 25:** Reorient the tax debate to one focused on outcomes and fairness over ideological frameworks.
- **Recommendation 26:** Proceed with the implementation of key reform ideas already circulating in the public debate, including superannuation tax concessions, negative gearing reform, stamp duty reform, and other key recommendations of the 2010 Henry Tax Review.

PART 1:
DEFINING OPPORTUNITY & THE AUSTRALIAN MIDDLE CLASS

Ensuring equality of opportunity should be at the center of all public policy making in Australia. In orienting public policy choices towards outcomes that facilitate an equality of opportunity, Australians are given a better chance to enter into a more comfortable middle class lifestyle. This is good for social cohesion, as well as continued economic growth. Indeed, expanding Australia's middle class, and finding appropriate ways to provide credible pathways into the middle class, should be the key focus for all Australian governments.

While the middle class is widely discussed, articulating an accurate definition for the middle class is inherently challenging. There is no international consensus on a definition for what it means to be 'middle class,'[2] but a variety of measures using sociological values or economic values are becoming established. Sociological values concern the attitudes and behaviours of people. The middle class are generally thought to value having a good education and a stable career.[3] They value hard work and teach their children to aim to achieve a comfortable and productive way of life. Indeed, this definition is in line with the widely held aspirations of most Australians.

Economically, the middle class are those in society that earn around a median income. There are numerous ways to measure this: some split national incomes into quintiles, but using this method to measure the relative growth or decline of middle class incomes over time requires regular reappraisal. Another way of measuring the middle class is by designating the middle 60 per cent of the population as middle class. While this measure is reasonable and common, the same problem arises when attempted to measure growth of the group over time, in that the measurement doesn't entirely reflect growing discrepancies in earnings between lower middle class and upper middle class citizens. The most popular method for measuring the middle class is by designating some income space around the median level of income. The standard for this is generally 75 to 125 per cent of the median income. Using this method allows researchers to measure social mobility over time as well as how average incomes change.

Another way of measuring the middle class is by asking people questions about themselves and what they think the middle class is. The major problem with this method is that overwhelmingly people identify as middle class. In fact, only 1-3.5 per cent of people will ever name themselves as upper class in Australia or the US.[4] The Australian National University, in its annual survey on classes in Australia, found that 52 per cent of Australians identify as middle class, 40 per cent as working class, and only 2 per cent as upper class (the remaining 6 per cent did not know).[5]

The middle class has been described as a "salaried socioeconomic group that supervises the waged working class on behalf of the ruling class. They manage wealth and resources, but don't own them." Clive Hamilton, writing for the Australia Institute and in his 2009 book Affluenza, characterises the middle class as those households with a disposable income between the 30th and 80th percentiles.[6]

This report similarly adopts the definition of 'middle class' used by Hamilton – it is those between the 30th and 80th income percentiles, with the middle-point being at the 55th percentile.

The Global Middle Class is Growing, But the Growth of Australia's Middle Class is Slowing

There is a large divergence in global trends in middle class growth. In developing nations, the middle class is growing by the day as more and more people are lifted out of poverty due to industrialisation efforts. This is particularly evident in nations such as China and India. The OECD global definition of the middle class is personal earnings of between US$10 and $100 per day, and in 2013 there were approximately 1.8 billion people that fit this definition. By 2030, that figure is expected to be closer to the 5 billion person mark.[7]

Conversely, in the Western world, studies have shown that the middle class has generally been steadily declining since 1980.[8] And unfortunately, social mobility has been experienced mainly in the downward direction, rather than by lifting more people out of the middle class into the upper class realms.[9]

Equitable Public Policy is a Key Determinant of Strong Middle Classes

A major international comparative study of the middle class found that the type of welfare state was the variable that affected the size of the middle class the most. The study identified three main forms of welfare state: the 'liberal welfare regime,' which emphasised market efficiencies and demonstrated limited government interventions; the 'corporatist regime' which is committed to preserving the traditional family, and invest in social insurance programs that encourage motherhood and provide benefits that encourage mothers to return to work; and finally the 'social democrat' model which pursues equality. The three models provide increasing social benefits to citizens, and can be exemplified by the UK and US in the case of liberal welfare regime; France and Germany in the case of corporatist regime; and Netherlands and Sweden in the case of the social democrat model.[10]

The major finding from this study was that governments with conservative welfare policies tend to have the smallest middle class, whereas social democratic states tend to have the largest. Since 1980, the liberal welfare regimes' middle classes declined by the largest percentage, whereas the corporatist model increased middle class numbers, and the social democratic states maintained the size of their middle classes, even despite adverse economic circumstances.[11]

The conclusion that is reached is that bold but equitable public policy is the greatest contributing factor to the size and growth of the middle class across all nations.

"Generous public safety nets and social services result in greater equality."[12]

Society is Stronger when the Middle Class is Stronger

Since antiquity, it has been understood that political communities with a large middle class are more likely to be administered well and not be dominated by either of the income extremes. A society with a strong middle class is therefore deemed to be more stable than unequal societies with a large divide between rich and poor.

Studies have found that social unrest usually increases when incomes and people become polarised.[13] On an economic level, a healthy middle class increases macroeconomic performance. Differences and prejudices are exacerbated by large inequalities in wealth, leading to growing animosities, and as a result economies are likely to decline rather than grow.[14] The middle class provides a strong consumer base that drives productive investment.

"… a strong middle class is a key factor in encouraging national and societal conditions that lead to growth. It is a prerequisite for robust entrepreneurship and innovation, a source of trust that greases social interactions and reduces transaction costs, a bastion of civic engagement that produces better governance, and a promoter of education and other long term investments."[15]

PART 2: THE ECONOMIC BENEFITS OF EXPANDING OPPORTUNITY

Expanding opportunity to all Australians results in the creation of a stronger middle class, and the stronger the middle class, the stronger the national economy. This is a reality well understood by all Australians. This section quantifies the benefit a stronger middle class can deliver to the Australian economy.

The following modelling focuses on four areas where a stronger and healthier middle class can be determined.

1. Increasing spending/consumption and aggregate demand
2. Reducing financial stress
3. Health: reducing smoking, drinking, type II diabetes, and other health problems.
4. Social mobility and ex ante incentives for investment in intergenerational mobility

It is worth noting that the following modeling scenarios include assumptions that prescribe the potential benefits of a stronger middle class, but do not reflect the path forward for the middle class under existing policy settings. The modeling, however, illustrates the magnitude of the economic benefits that might be achieved by policies aimed squarely at improving the equality of opportunity and expanding the middle class. It also must be noted that the modelling speaks to the possible benefits, without stipulating specific policies to achieve those benefits. More detailed policies that aim to realise these gains will be detailed in Section 4 of this report.

For the purposes of this report, "middle class" is identified as being the population between the 30th to 80th percentiles of the income distribution in Australia. The midpoint of this range is the 55th percentile and is often used as a reference point for the level to which policies that strengthen the middle class might raise those on lower incomes to. While acknowledging that not all Australians relate to these income percentiles, it is through quantifying the growth in the statistical middle class that broader benefits of reorienting Australia's policy settings towards a more equitable place is observable.

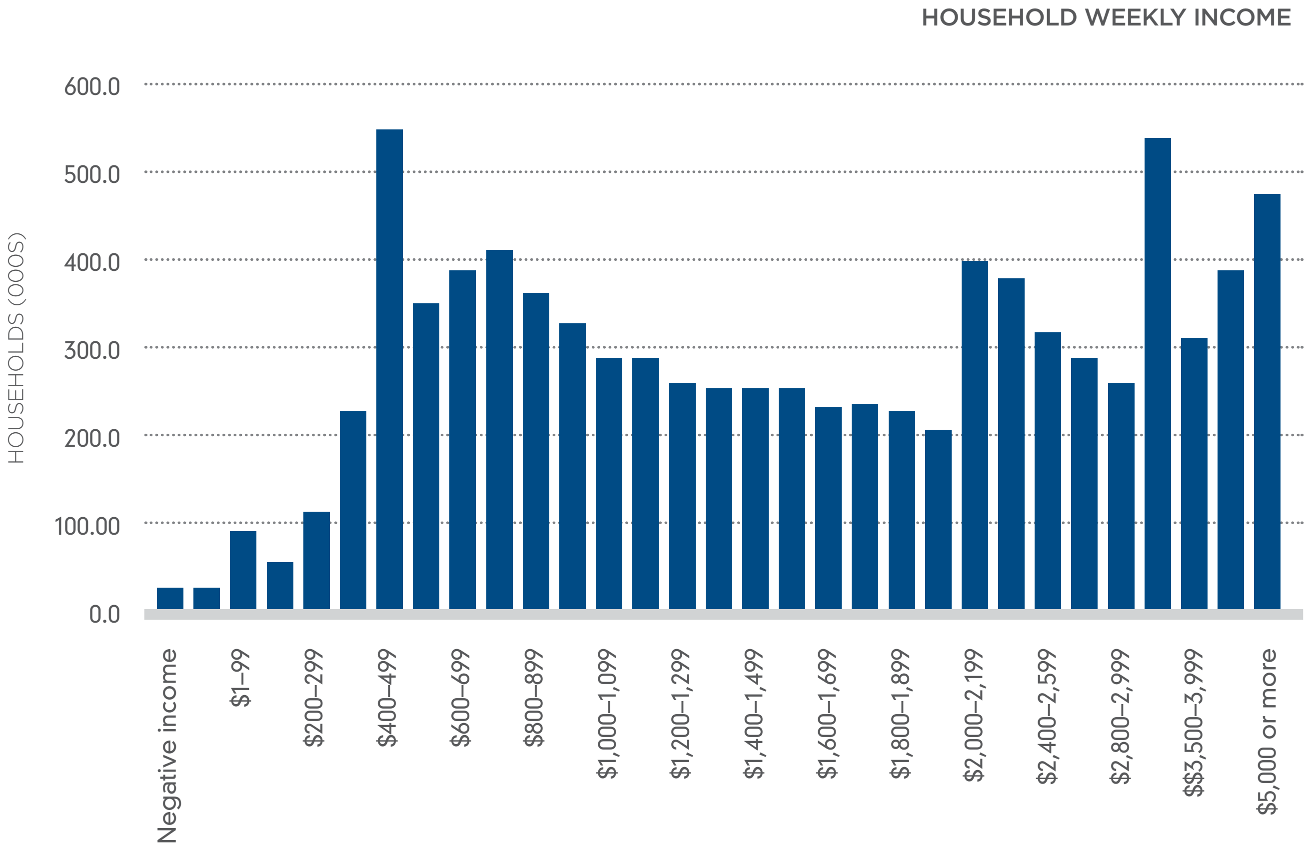
The Economy Benefits from Greater Middle Class Spending

One major benefit of a strong middle class is the increase in economic activity—specifically spending and consumption—that results from households on lower incomes being "lifted up" to a higher income level.

Using Australian Bureau of Statistics data on income levels it is possible to quantify the impact of shifting the income distribution up to the middle of the middle class—the 55th percentile, in terms of GDP. The chart below shows the distribution of household income for 2013-14 (the latest available ABS figures).

FIGURE 1

Income distribution in Australia. The 55th percentile (the mid-point of the middle class) has a weekly household income of $1,650 per week (or $85,800 annually).



A key assumption in considering the impact of an increase in household income on GDP is the marginal propensity to consume. This is a well-researched issue, and the best current estimates suggest that the marginal propensity from permanent changes in income (as contemplated here) is 0.9.[17]

As a starting point for the calculation we assume that every household below the 55th percentile moves up to the current ($1,650 per week) level, and MPC is 0.9.

That would boost consumption by a massive $170.5 billion per annum – and, by definition, increase GDP by that amount. A more sensible thought is what would happen if we got 1/3 of the way to that (which would still be very hard). That would add $56.4 billion to annual GDP, or a boost of 2.9 per cent of GDP. Note, this is not shifting the growth rate, but the level of GDP by nearly 3 per cent – and growth would magnify this. This is a significant benefit to the Australian economy and middle class workers.

Improving Middle Class Health Outcomes Improves the Economy

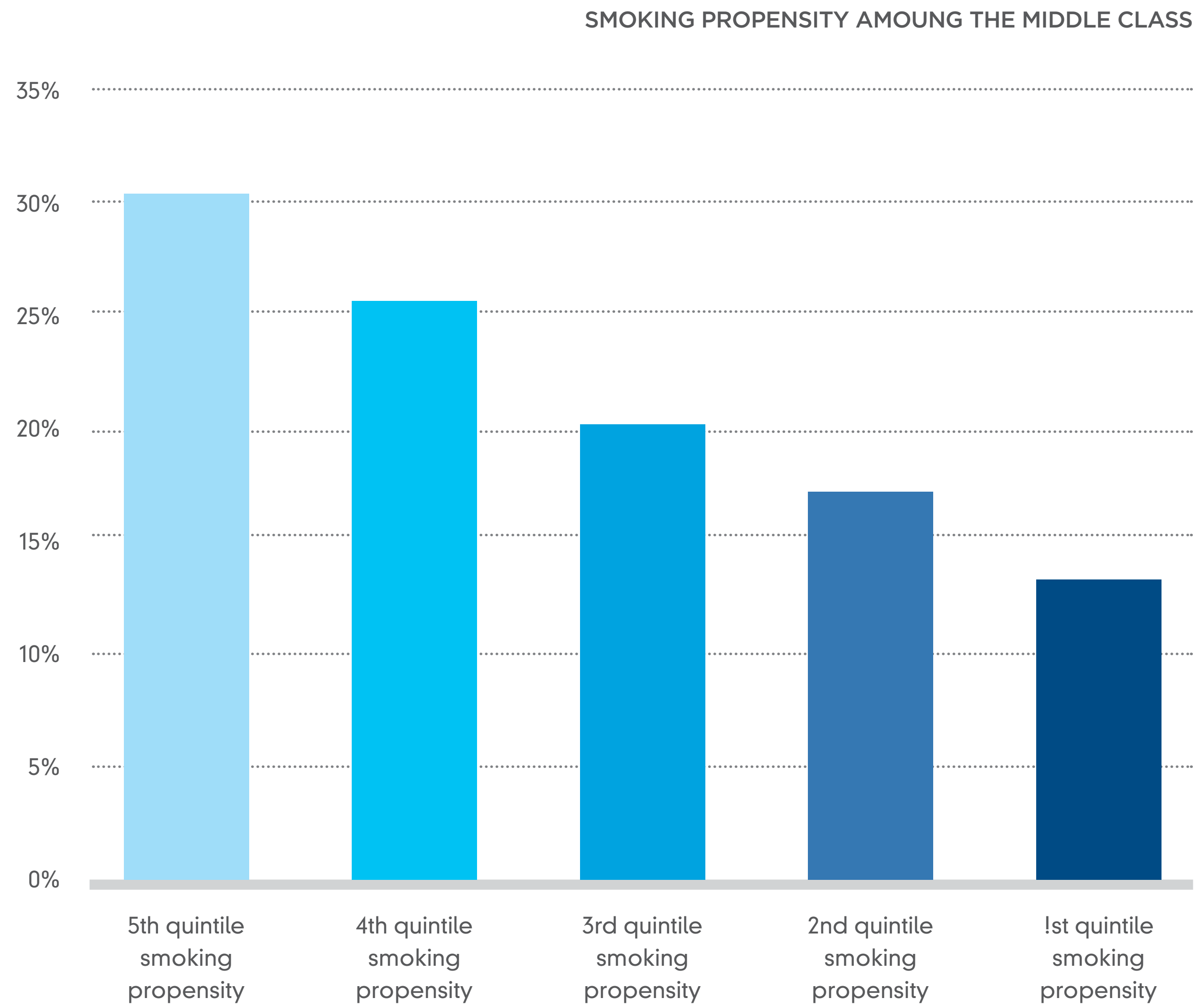
It is well known that there is a relationship between socioeconomic status and health outcomes. People of lower socioeconomic status have materially worse health outcomes, and have higher rates of: smoking, type-II diabetes, and problematic levels of alcohol consumption.

There are insufficient publicly available data to quantify all of these factors, but smoking is one behavior where it is possible to do so. It is also the case that this is perhaps the most important negative behavior associated with socioeconomic status.

The following chart demonstrates smoking propensity by income quintile in Australia.

FIGURE 2

Smoking propensity by middle class income quintile. It is observable that those in lower income percentiles within the middle class income brackets exhibit a higher rate of smoking. Note that the graph below indicates smoking propensity amongst only those within the middle class income bracket, not across the entire Australian population.



It is also estimated that the annual cost of smoking (through a variety of different negative health effects) is approximately $30 billion per annum. This and other sources also document some of the reasons that underpin the relationship between socioeconomic status and smoking propensity. For the purposes that follow this report treats this relationship as a causal one, although some care should be taken in adopting that interpretation.

Moving the smoking propensity of those below the midpoint of the middle class would reduce middle class smoking propensity significantly – to 21.5% overall. It is estimated that this would save the Australian economy approximately $4.1 billion annually. Related savings from issues such as type-II diabetes and problematic alcohol consumption could also be large, but insufficient data exists to quantify those at this juncture.

These findings corroborate recent bipartisan reforms to raise the taxation on smoking in Australia. These reforms are important in discouraging the uptake of smoking amongst future generations of Australians, bettering healthcare outcomes for the community, improving the healthcare budget, and directing healthcare resources towards areas that need it most.

Financial Stress & Job Insecurity is a Burden to the Australian Economy

Another significant economic cost of not having a sufficiently strong middle class arises from financial stress. It is estimated that workplace stress in general costs the Australian economy approximately $10 billion per annum.

There is also useful evidence on the different factors leading to workplace stress. By taking the top 5 factors and computing the share attributable to financial stress, we conclude that **23.2 per cent of workplace stress costs are due to financial stress.** It is harder to assess (again due to data availability issues) the proportion of this attributable to those below the middle of the middle class in the income distribution. But anecdotal evidence in Australia and overseas suggest that 80 per cent is a plausible estimate. This leads to an estimated **$1.9 billion annual improvement from reducing financial stress through a stronger middle class.**

Another significant social factor that also has a material financial cost is relationship breakdown and divorce, with an estimated benefit – through lower divorce and separation rates – of $4.3 billion annually.

Social Mobility is Key to a Prosperous Economy

A strong middle class is clearly associated with social and socioeconomic mobility. On top of the social benefits of this, it has important economic effects, particularly through the incentives that are provided by the possibility of social mobility.

There are at least three areas in which this economic benefit operates:

1. Reduced welfare payments: a strong middle class leads to less reliance on the social safety net
2. Labor supply: a strong middle class leads to greater incentives for work, which creates both private and public benefits.
3. Intergenerational human capital formation: a strong middle class makes it in the interests of children to acquire higher levels of human capital, both through their own choices (such as effort in school) and those of their parents on their behalf.

In order to quantify these effects, we look at ABS data on benefit by household income level. Ignoring: Medicare, the aged pension, disability payments, and other payments not directly linked to income support related to socioeconomic status, we consider the following payments: parenting support, unemployment benefits, family tax benefit, and "other government assistance and allowances".

By moving the bottom two quintiles of the income distribution to the middle of the middle class would put an extra $16.1 billion on the table for savings. Using the same measure of a 1/3 move toward that goal, as adopted above for the consumption benefit, leads to an estimated $5.4 billion per annum.

The labor supply elasticity effect can also be quantified. This is a problem that has long been studied by leading economists. Michael Keane, a professor of economics at the University of Oxford, finds that the average across a large number of studies is an elasticity of 0.31 – that is, the per cent increase in labour supply from a 1 per cent increase in the post-tax wage rate.[18]

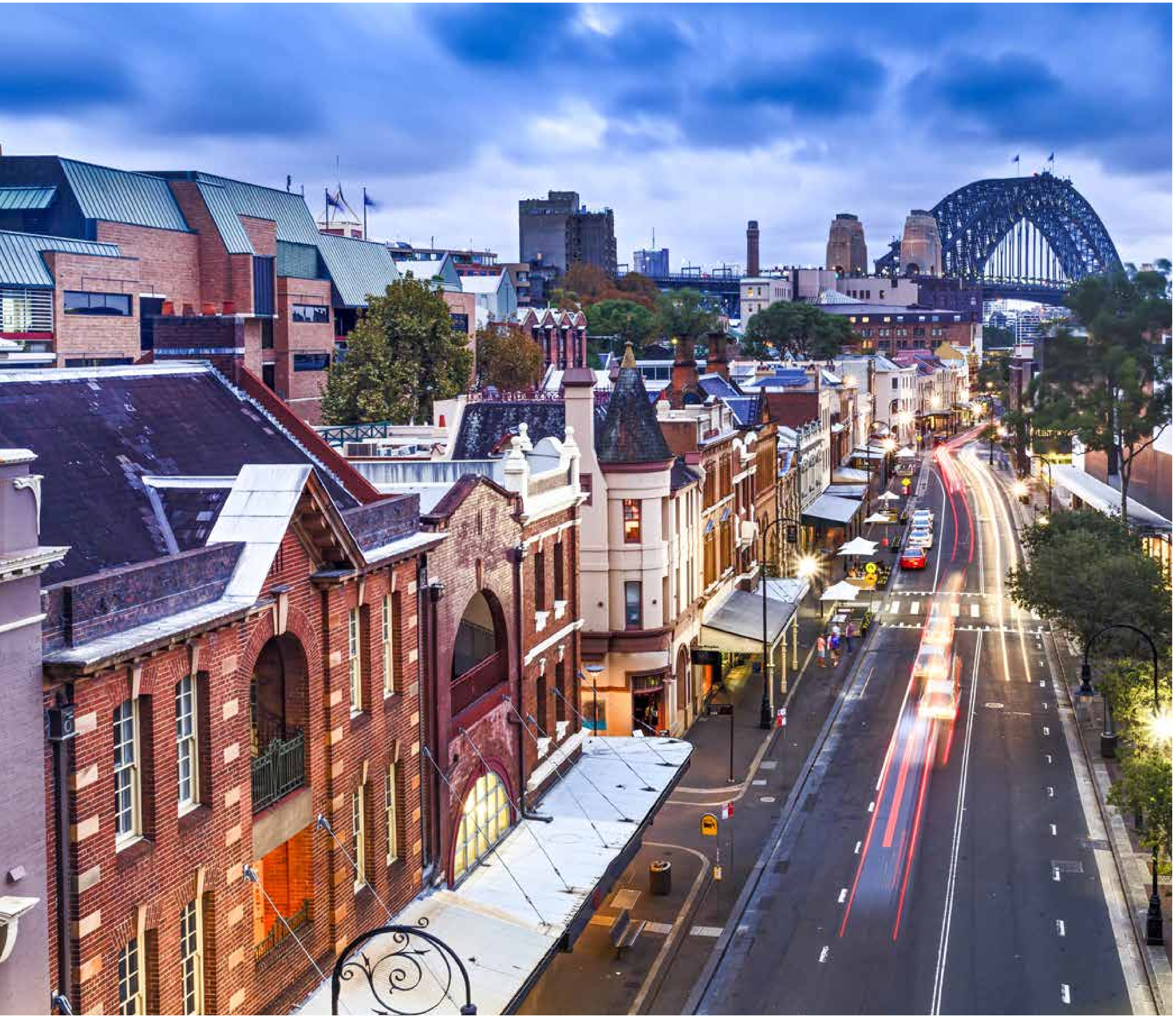
We proceed by taking all households whose income is below the 55th percentile but above $700 per week to eliminate, as much as possible, people who may not wish to work more for a variety of reasons, and to yield a more conservative estimate. We abstract from taxes for two reasons: (i) the ABS data is at the household not the individual level; and (ii) it is the tax-benefit system, not the tax system that matters for post-tax income, and many individuals in these income brackets are not "net" tax payers.

We then assume an increase in income to the 55th percentile level as a proxy for the labour market opportunities from a stronger middle class. Taking into account the labor supply elasticity and factoring in existing income levels yields a total increase in earnings for this group. **The total increase "on the table" is $23.6 billion, and using the 1/3 approach from previous estimates in this study yields a potential benefit to the economy of $7.9 billion annually.**

The third factor mentioned above is investment in children's education and development. It is probably too speculative to attempt to put a number on this particular factor, and one would need to be careful not to "double count", since we are already factoring in benefits to the current generation on an *annual basis.*

The Socio-Political Benefits of Equality of Opportunity

Maintaining a robust middle class and ensuring that equal opportunity is extended to all Australian citizens is not only vital for the growth and sustainability of a national economy, it is also central to the health and vibrancy of an inclusive, pluralist society and an informed and engaged political debate. Increasing inequality and economic hardship can create social tensions that foster a feeling of democratic exclusion that can lead to division with the community. Australia is fortunate in its relative social harmony and its embrace of multiculturalism. However, in order to maintain long term social stability and perpetuate the sense of the 'fair go' in the Australian community, it is important appropriate policy measures that aim to strengthen and expand the middle class are in place.



PART 3: AUSTRALIA'S MIDDLE CLASS IN A GLOBAL CONTEXT

Australia's strong middle class is one of the nation's greatest accomplishments. However, it is not immune to the challenges facing the middle class around the developed and developing world alike, as wage and economic growth slows, and cost of living pressures continue to rise.

Identifying a single unifying definition of a global middle class is inherently difficult. While it is encouraging that the middle class way of life is proliferating in the developing world – and particularly in Australia's region – it is important to draw a distinction between the middle class experience of Australians compared to middle classes experiences throughout the globe.

Academic definitions of an international 'middle class' generally define the group as those with only a modest standard of living marginally higher than poverty. A Pew Research study noted that between 2001 and 2011, nearly 700 million people globally stepped out of poverty, but 'only just'.[19] A clear distinction must be drawn between the middle class of the developing world and the middle class of the developed world – two groups that experience middle class life in vastly different ways.

A common way of measuring the middle class in developing countries is through the 'car index', that links growth in car ownership in the developing world to growth in the middle class. The argument is that owning a car signifies a disposable income that qualifies an individual as 'middle class' in poorer countries. Clearly, however, such a simplistic measurement is not representative of the Australian middle class experience, which is defined by an equality of opportunity, access to affordable education and services, and a comfortable standard of living that enables the individual to effectively contribute to the Australian economy and society.

Australia is fortunate in that it has a strong history of economic opportunity and has continually seen an improvement in the standard of living. It has a proud and productive workforce routed in a strong and productive middle class. The opening of the Australian economy in the 1980's and the introduction of important social and economic reforms such as Medicare and Superannuation have meant that compared to many populations, Australians enjoys a comfortable economic environment with a robust safety net.

However, in order to more accurately observe the trends and understand the challenges faced by the Australian middle class, it is important that the Australian experience is compared with only comparable nations – while the developing world is enjoying a statistical and technical growth in its middle class, the developed economies of the Organization for Economic Cooperation and Development (the OECD) are struggling to maintain and grow their middle classes. The aftermath of the global financial crisis (GFC) in 2008-9 has seen a decline in real wages across the OECD – a trend from which Australia has not been immune.

The Growth of Australia's Middle Class has Stalled

Since 2012, middle class Australians have experienced a real decline in average incomes. Although wage growth is central to growing the economy more broadly, in recent years it has stalled for the Australian middle class, and has even begun to go backwards. In 2012, the average income in Australia reached its highest when converted to the international standard – the US dollar, reaching US$52,229 per annum. In 2013 and 2014, however, this figure declined, currently hovering around US$51,148 per annum (adjusted for exchange rate fluctuations).

FIGURE 3
Average income in Australia 2008-2014 in 2014 $US adjusted for exchange rate fluctuations.

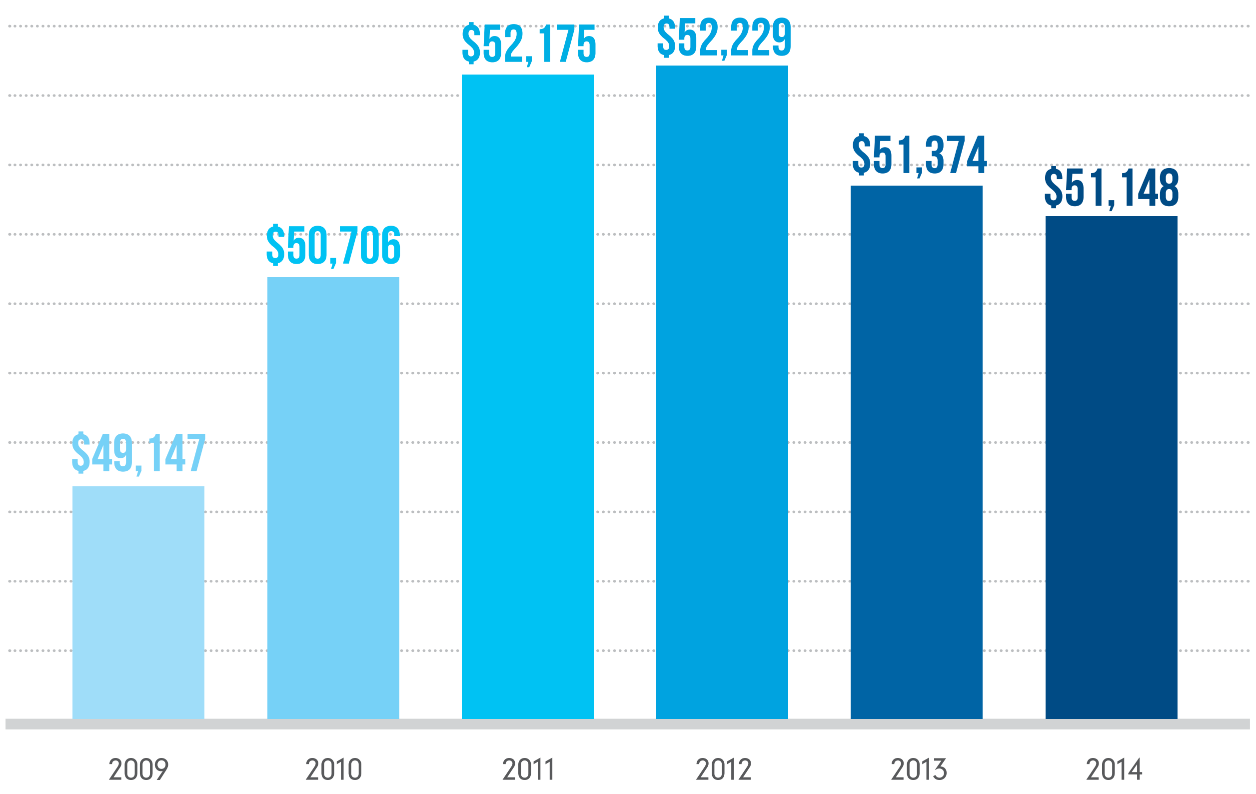
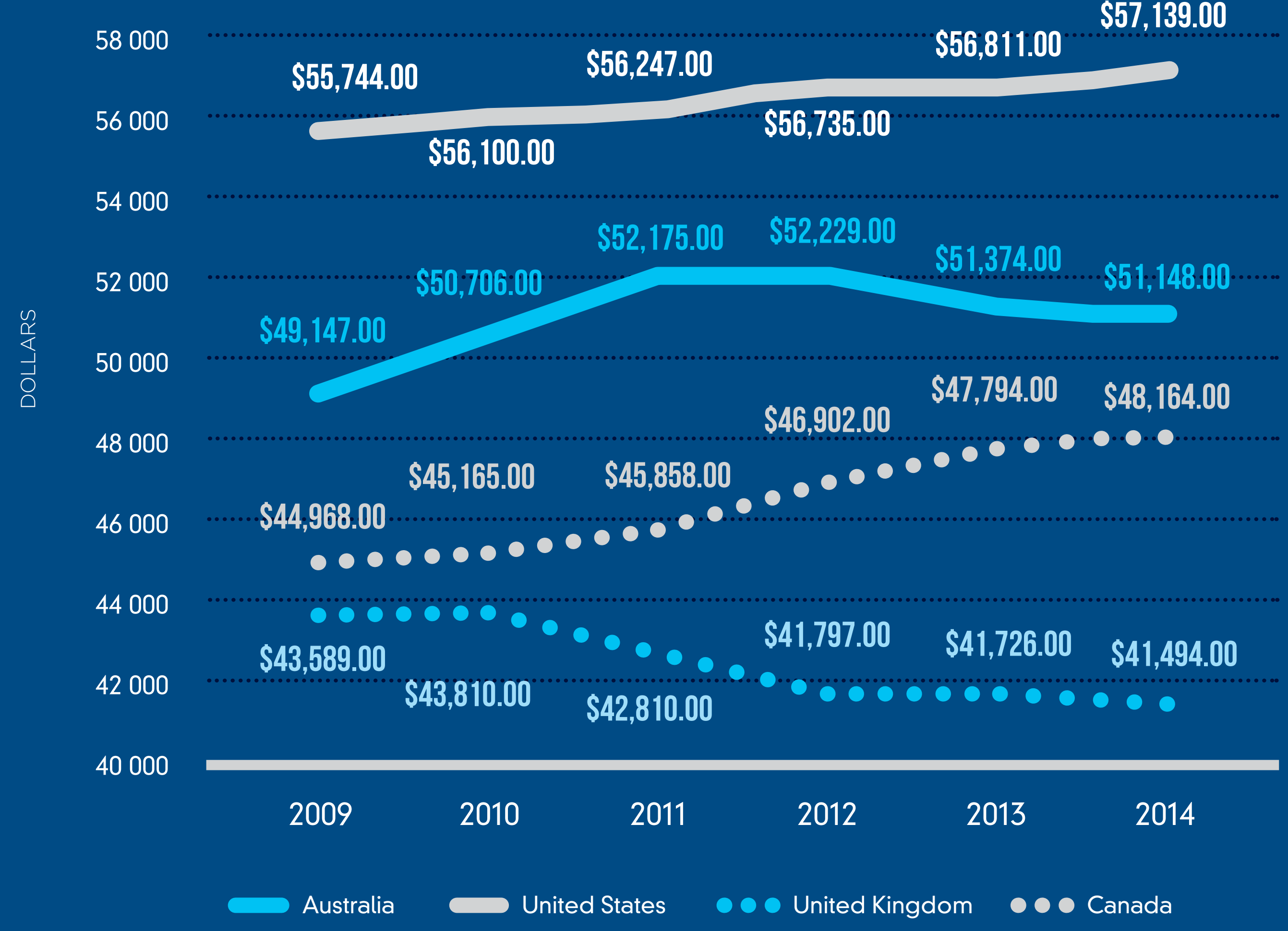


FIGURE 4
Comparing Incomes across Australia, the United States, the United Kingdom and Canada.
(in 2014 $USD). Source – OECD stat

	2009	2010	2011	2012	2013	2014
AUSTRALIA	$49,147	$50,706	$52,175	$52,229	$51,374	$51,148
UNITED STATES	$55,744	$56,100	$56,247	$56,735	$56,811	$57,139
UNITED KINGDOM	$43,589	$43,810	$42,810	$41,797	$41,726	$41,494
CANADA	$44,968	$45,165	$45,858	$46,902	$47,794	$48,164

FIGURE 5
Since 2012, average Australian and British incomes have been in decline, while average Canadian and US incomes have seen a steady increase since 2009. Source: OECD stat



Average Incomes in Australia are Slowing in a Global Context

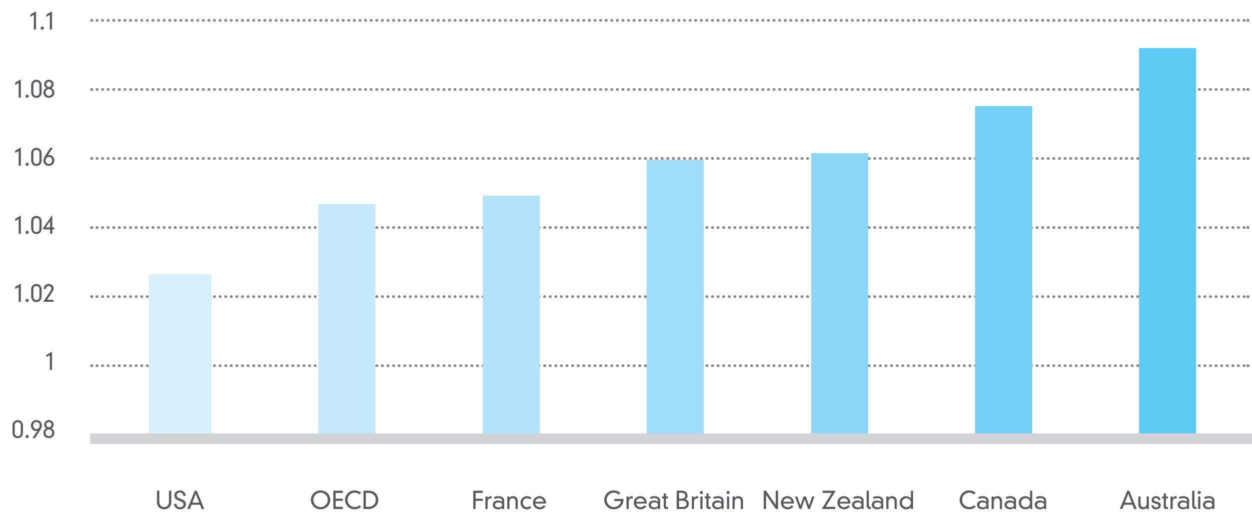
Average incomes in Australia are significantly lower than the United States, but higher than in the comparable countries of the United Kingdom and Canada, when adjusting wages to the US dollar based on purchasing power parity. However, while incomes continue to rise in both the US and Canada, Australian incomes are going backwards. Since 2012, the average Australian annual income has slid from US$52,229 per annum to US$51,148, a 2.7 per cent reduction.[20] 2014 was the second continuous year that Australia's wages fell in purchasing power parity terms. While this trend was reversed in the United States and Canada, the United Kingdom has continued to suffer a downward average income trajectory since the global financial crisis. In other words, the Australian and British middle classes are finding it harder to make ends meet than they did – in the UK's case – before the GFC, and – in Australia's case – since 2012.

Average Incomes within Australia are Plateauing[21]

While the above figures reflect Australian incomes in an international context when converted to the US dollar, in the local context, Australian wage growth is slowing and is expected to stall in the coming years. Currently, the average weekly wage for an Australian is AUD$1145.70.[22] However, this is expected to only grow in real terms to AUD$1243 per week by 2020.[23] This growth is incredibly slow by Australian and international standards alike, and highlights the threat to the continuation of Australia's middle class standard of living. At the same time as Australian income growth is slowing, cost-of-living pressures continue to grow, and disposable income is decreasing. Research by the National Center for Social and Economic Modeling (NATSEM) compared the growth in disposable incomes over the 2004-2014 period with predicted disposable income growth between 2014-2024, and found Australians of most income brackets would experience a significant decline in the growth of their disposable income .[24] The 2015 report, *Living Standards in Australia*, analysed the growth in disposable incomes across three main income groups. The lowest group – those with incomes up to $23,000 per year saw their disposable income grow by 15.1 per cent between 2004-14, but was expected to see a 4.5 per cent reduction in its disposable income by 2024. The middle income group – those earning up to $69,500 per year, experience a 21.6 per cent growth in disposable income between 2004-14, but is only expected to see its disposable incomes increase by 0.2 per cent by 2024. The highest income group, while better off than lower income earners, would also see a significant reduction in its disposable income growth, from 28.4 per cent between 2004-14 to 5.9 per cent by 2024. In short, lower and middle income earners are becoming increasingly squeezed financially as wage growth stagnates and broader cost-of-living pressures increase.

FIGURE 6

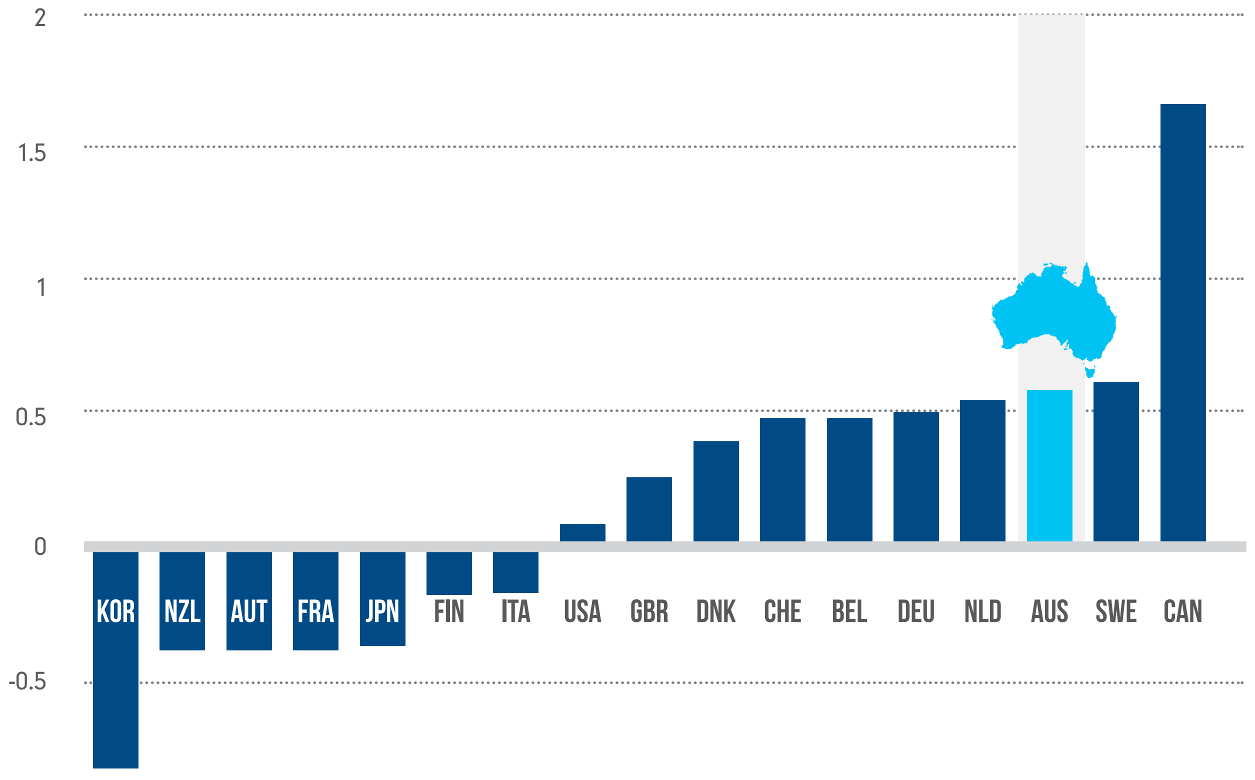
Labour productivity forecast – OECD 2017.
Australia's labour productivity currently exceeds that of Canada, the US and the UK, and is expected to continue to do so into the future, while middle class wages are going backwards.



Australia's Middle Class is Being Squeezed, But Labour Productivity is Among the World's Best

While the Australian middle-class is experiencing a three-year decline in real wages and significant projected declines in disposable incomes, it is continuing to exceed other comparable nations in labour productivity.

FIGURE 7
Multifactor productivity growth rates across selected OECD nations 2014.



Productivity is measured in in a variety of ways, with labour productivity and multifactor productivity (often called total factor productivity) being among the most common. Labour productivity is measured by the amount of goods and services that are produced by one hour of labour. Multifactor productivity, however, measures the return on all inputs of economic activity, including labour and capital inputs. Labour productivity in Australia is among the highest across the OECD. It is forecast to grow at 1.09 per cent in 2017 – ninth highest in the OECD and significantly higher than Canada, New Zealand, Great Britain, the US and the OECD average. Australia is also experiencing higher rates of multifactor productivity than many other comparable nations, falling behind only Sweden and Canada in the last measurement compiled by the OECD in 2014. Again, multifactor productivity in Australia ranks higher than in many comparable countries such as the US, Great Britain, Germany, France and New Zealand.

What the data demonstrates is that while Australia's middle and working class is feeling the effects of slower wage growth and higher costs of living, the Australian economy is still becoming more productive, particularly when compared to the productivity growth (or reduction) seen in other comparable developed countries. The situation understandably leaves many Australians in the middle and working class feeling less content in their daily life, having often worked harder, longer and more productive, but are still struggling to make ends meet in an increasingly challenging economic climate. While Australians have a strong minimum wage and safety net – as outlined in the following section – it is vital that Australians are able to enter the middle class and stay there, not rely on falling back into minimum wage territory.

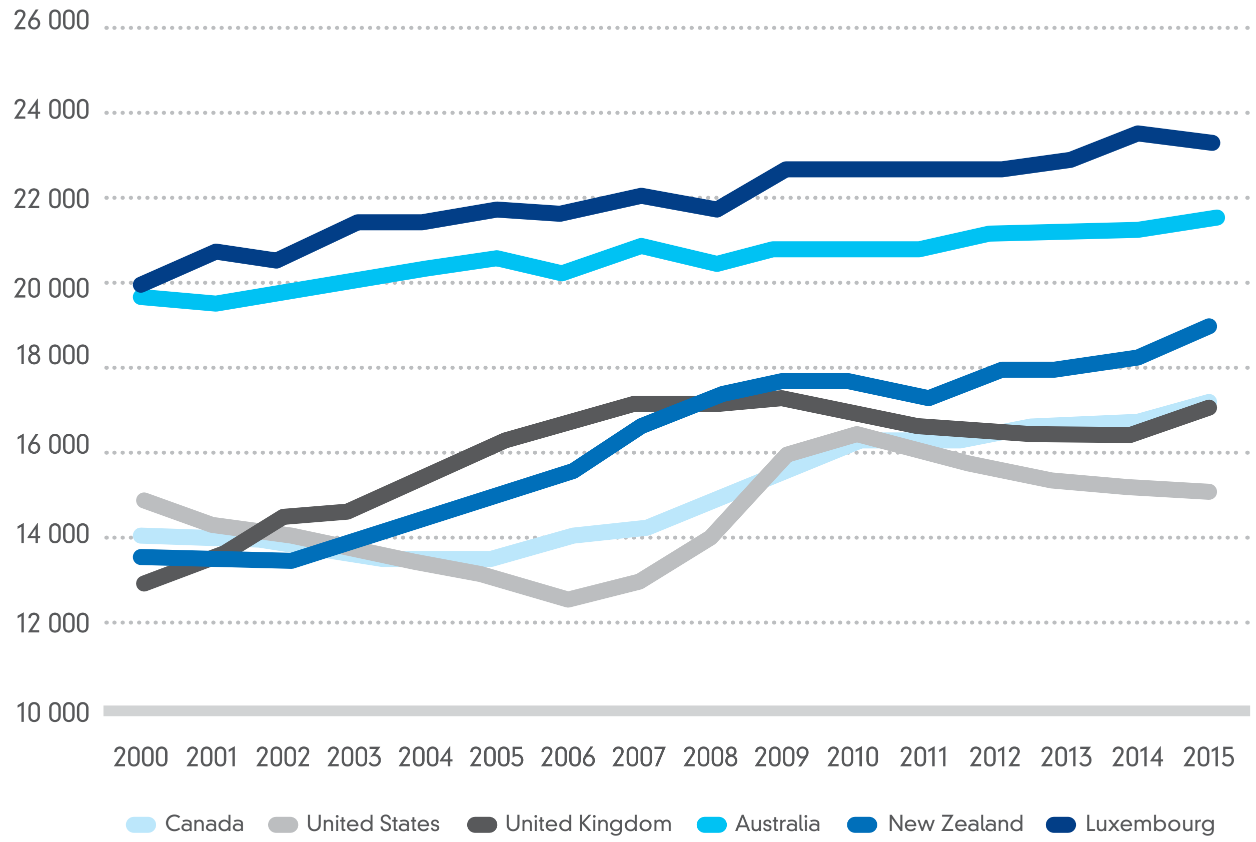
Australia Has a Strong Safety Net, But the Middle Class Is Being Increasingly Squeezed

It has been identified that strong minimum wage policy has a direct correlation on overall economic growth. Fanti & Gori (2011) identify a positive correlation between regulated mimum wage policies and overall economic growth:

> The essential message, therefore, is that the minimum wage can be used not only to enhance equity but also to promote economic growth.[25]

Australia's minimum wage is strong when placed aside other comparable nations. While it is undoubtedly still challenging for any Australian to live on a full time minimum wage, it is a safety net that does enable a basic standard of living. When compared to countries such as the United States, the United Kingdom, Canada, and New Zealand, Australia's minimum wage is strong. When compared OECD wide, Australia's minimum wage falls below only Luxembourg and the Netherlands.

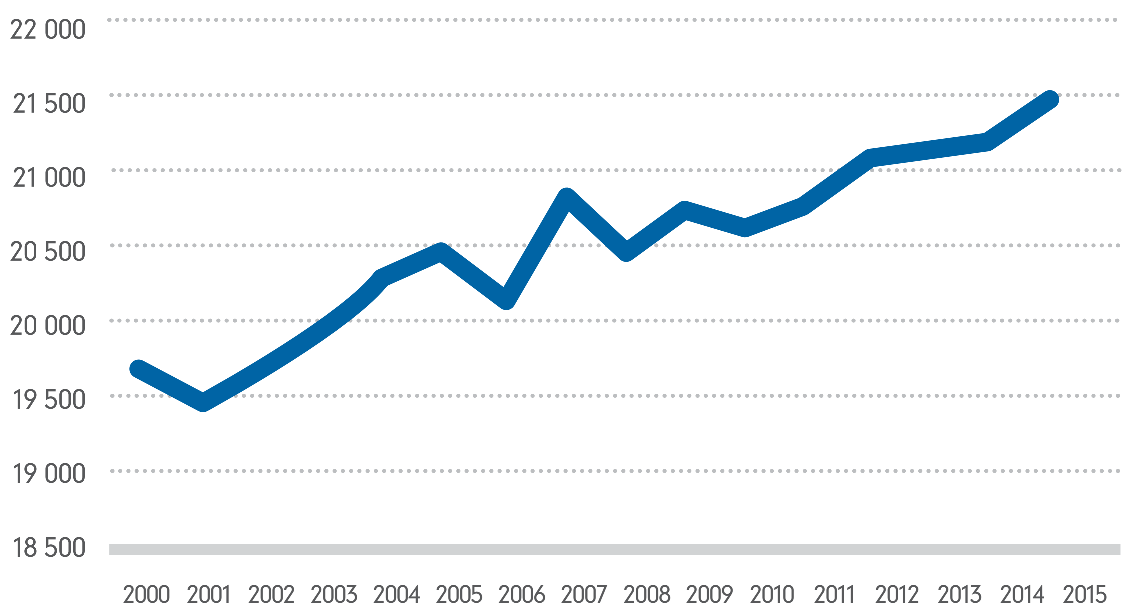
FIGURE 8
Minimum wages across advanced OECD countries, 2000-2015.



The minimum wage in Australia has continued a steady but modest rise since the year 2000. Between 2000 and 2015, the real mimum wage rose from US $19701.40 to US $21464.50. And while it is commendable that Australia has a strong mimum wage when compared to other developed nations, these favourable statistics are little comfort for households that are increasingly reliant on the minimum wage because of the declining income of middle class Australians. Australia's minimum wage is strong by international comparisons, but individuals who rely on the minimum wage for survival are unlikely to have access to a significant *disposable income*. When individuals find themselves in this position, they are not only unable to achieve a high living standard, they are also unable to sufficiently contribute to the economy more broadly. Central to the broader economic prosperity in Australia is the ability for citizens to maintain a disposable income that can be allocated towards goods and services beyond the essential needs of every household. Australia's minimum wage, while strong, does not enable a sizeable disposable income.

The link between a strong minimum wage and overall economic growth has been argued comprehensively in economic literature.[26] More than half of the income of those reliant on the minimum wage is allocated towards rent or mortgage payments, utilities, and other essential cost-of-living expenses such as food, petrol and education fees for their families . A strong minimum wage is vital in ensuring working Australians do not slide into poverty. To benefit the economy more broadly, it is vital that those who are reliant on the minimum wage have a realistic path to a middle-class income, and that those currently in the middle class are supported by policies that reduce the likelihood they will fall into the minimum wage income bracket.

FIGURE 9
Australia's real minimum wage has risen modestly from $19701.40 per annum in 2000 to $21464.50 in 2015.



PART 4: A POLICY BLUEPRINT FOR A FAIRER AUSTRALIA

The previous sections have identified the current state of Australia's middle class and the ongoing challenges it faces. This section tables a policy blueprint for ensuring the long-term growth of Australia's middle class, offering specific policy recommendations aimed at bolstering middle class incomes, bettering equality of opportunity Australia wide, and ensuring the stable growth of the Australian economy into the future.

To ensure continued sustainable and fair growth of the Australian economy, appropriate policy measures across the spectrum need to be implemented. At the heart of any substantial reform agenda must be the focus on growth, prosperity, and fairness: an equality of opportunity for all Australians.

The following twenty-six recommendations form a policy blueprint for a more equitable Australia with a stronger middle class. This report identifies eight priority areas: focusing on strong wage growth, ensuring strong and equitable superannuation growth, improving the access to quality education, improving housing affordability, ensuring equality of access to essential transport services, adequately investing in the 'new economy', focusing on innovation, technology and entrepreneurship, modernising Australia's health system, and reforming Australia's tax system.

Within these eight priority areas are specific and implementable policy recommendations that, if enacted, would ensure that more Australians are able to progress into the middle class and stay there.

PRIORITY AREA 1

PRIORITISING STRONG WAGE GROWTH

- **Recommendation 1:** Maintaining a stable employment bargaining system that provides certainty and stability for businesses and workers.
- **Recommendation 2:** Ensuring appropriate compensation for the timing of work, while accommodating for contemporary labour market demands.
- **Recommendation 3**: Take active steps towards solving the earnings and participation gap between men and women.
- **Recommendation 4:** Taking action to improve job security.

Strong Wage Growth is a Key to Economic Prosperity

Wage growth in Australia has been very slow in recent years.[28] In 2015, annual wage growth had declined to its lowest point since the late 1990s, with the average growth rate hovering at a low 2.7 per cent.[29] The symptom of low wage growth is one that reflects a weakening economy: when unemployment is higher and job security is low, employees become 'more anxious…and become willing to accept a lower wage as there are fewer opportunities for alternative employment'.[30]

Growing wages are not only a sign of a *strong* economy, but they also are pivotal to the overall *growth* of the economy and are representative of improving employment rates in an economy. Standard economic theory suggests that wage growth and unemployment are intimately linked: the higher the wage growth, the lower the unemployment, and vice-versa.[31]

Australia's Workplace Bargaining Model is Robust

> "The Great Inflation [of the 1970's] was the defining macroeconomic event of the second half of the twentieth century. Over the nearly two decades it lasted, the global monetary system established during World War II was abandoned, there were four economic recessions, two severe energy shortages, and the unprecedented peacetime implementation of wage and price controls."
>
> MICHAEL BRYAN, SENIOR ECONOMIST, US FEDERAL RESERVE BANK, ATLANTA[32]

The contemporary Australian workforce is fortunate in having experienced a generally favourable and constructive debate surrounding industrial relations policy that has fostered good outcomes for both workers and employers since the 1980's. Prior to the substantial reform agenda put in place by the Australian government during the 1980's, Australia's industrial relations framework was outdated and unable to sufficiently accommodate the demands of a growing internationalised economy. The 1970's were a decade of economic uncertainty and hardship throughout the Western world. That decade saw multiple shocks to the global economy, including the 1973 Oil Crisis and the collapse of the Bretton Woods system – a central pillar of the international economic system - after the US adopted a floating currency. This decade posed significant challenges to Western governments including Australia. The 1970's witnessed unprecedented rates of inflation, higher unemployment and low economic growth throughout Europe, North America and Australia. These changes to the global economy meant that Australian reform was necessary, and the Australian governments throughout the 1980's actively reformed the economy into a more modern and internationally competitive one.

> The Accord provided the vehicle for a politically skilful and successful transition of Australia's unique wage fixing system to one better adapted for an internationally competitive economy.
>
> DR. WILLIAM BROWN, UNIVERSITY OF CAMBRIDGE [33]

Key to the success of the reform agenda of the 1980's was a negotiated arrangement between the Australian Government and the Trade Union movement called the 'Accord'. The Accord was an innovative and collaborative arrangement that enabled the Australian government to enact necessary workplace reforms, while ensuring that neither workers nor employers were adversely affected. Indeed, the opening of the Australian economy and the workplace reforms implemented throughout the 1980's left Australia in a strong economic position that saw more than two decades of consistent economic growth from the early 1990's to today. The Accord was vital in establishing a workplace relations framework that was founded upon a principal of adequate remuneration and a willingness to understand the need for nuanced employment arrangements for many workers and businesses. The Australian model has indeed been the envy of the rest of the world, and has been broadly successful in balancing workplace fairness with contemporary labour market demands, fostering economic growth, more jobs and higher wages over the last two decades. However, while Australia has been successful in the past, continued success and growth into the future demands a constant vigilance regarding Australia's industrial relations framework to perpetuate wage and economic growth into the future.

Appropriate Compensation for the Timing of Work Must be Maintained

Penalty rates are at the core of Australia's industrial relations framework. They incentivise working during unsociable hours, such as weekends and evenings, and incomes reliant on penalty rates are central to the economic well-being of many communities across Australia. The additional income generated through penalty rates also increases the demand for goods and services nationally, helping businesses and communities develop and grow. This effect is particularly acute in regional and rural Australia, where the average income is as much as $600 less per week per household than in the capital cities.[34] For residents in these communities, penalty rates provide a lifeline that enables them to achieve a middle-class standard of living while helping support local businesses.

The McKell Institute has released numerous reports outlining the economic significance of penalty rates in Australia, exploring the specific impact of proposed reductions to penalty rates in regional Australia and certain sectors of the economy. These reports have comprehensively tabled the vitality of penalty rates to the Australian economy and the economic risks of the reduction or outright removal of penalty rates. A 2014 study, *Who Loses When Penalty Rates Are Cut?* quantified the loss of income for retail and hospitality workers in regional Australia alone between $370 million at the lower end, and $1.55 billion at the higher end if proposed reductions or eliminations of penalty rates were to be implemented.

With the importance of penalty rates clear, there is a need to ensure they are not significantly undermined through future workplace relations reforms. Enshrining penalty rates specifically in law, however, is a challenging and complicated option that has the potential to undermine penalty rates in the long-term. While many advocates for penalty rates understandably promote the option of specific legislation enshrining penalty rates into law, to do so presents a significant risk to penalty rates in the long-term under a hypothetical future government with ideological opposition to penalty rates. The existing arrangement in which the Fair Work Commission maintains the independent authority to dictate wage rulings is an important cornerstone of Australia's workplace relations framework, and assists in depoliticising Australian wages. The solution to ensuring the long-term viability of penalty rates is through strengthening the Fair Work Commission and maintaining its independence, whilst maintaining a robust advocacy network continually highlighting the economic and social benefits of a fair and adequate remuneration system that rewards middle class Australians for working unsociable and challenging hours.

Workers and Employers Both Require Nuanced Workplace Arrangements

Penalty rates clearly provide an important element of financial security for individuals working unsociable or undesired hours and in difficult conditions. However, it is also important to reiterate that many workers desire workplace conditions and working hours that enable them to juggle social, educational or family commitments while still retaining the ability to work outside of regular hours. Future Fair Work Commission rulings should continually seek to balance the important place of penalty rates with the increasingly nuanced nature of the workforce in order to ensure a long term balance in the Australian workplace.

The Gender Pay Gap is Real – it Must Be Acknowledged and Must Be Closed

The gender pay gap is a real and sizeable inequity in the Australian workplace. The existence of the gender pay gap has caused a wide ranging debate over recent years, from those who refuse to acknowledge its existence to those that want real action on changing the conditions in Australia that enable men to earn substantially more over their careers than women. While it is clear that Australia has strong wage equality laws that ensure equal pay for equal work on an hourly basis, the reality is that women in Australia over their lifetimes on average continue to earn substantially less than men. Solving this challenge requires both government driven reform and community driven cultural shifts.

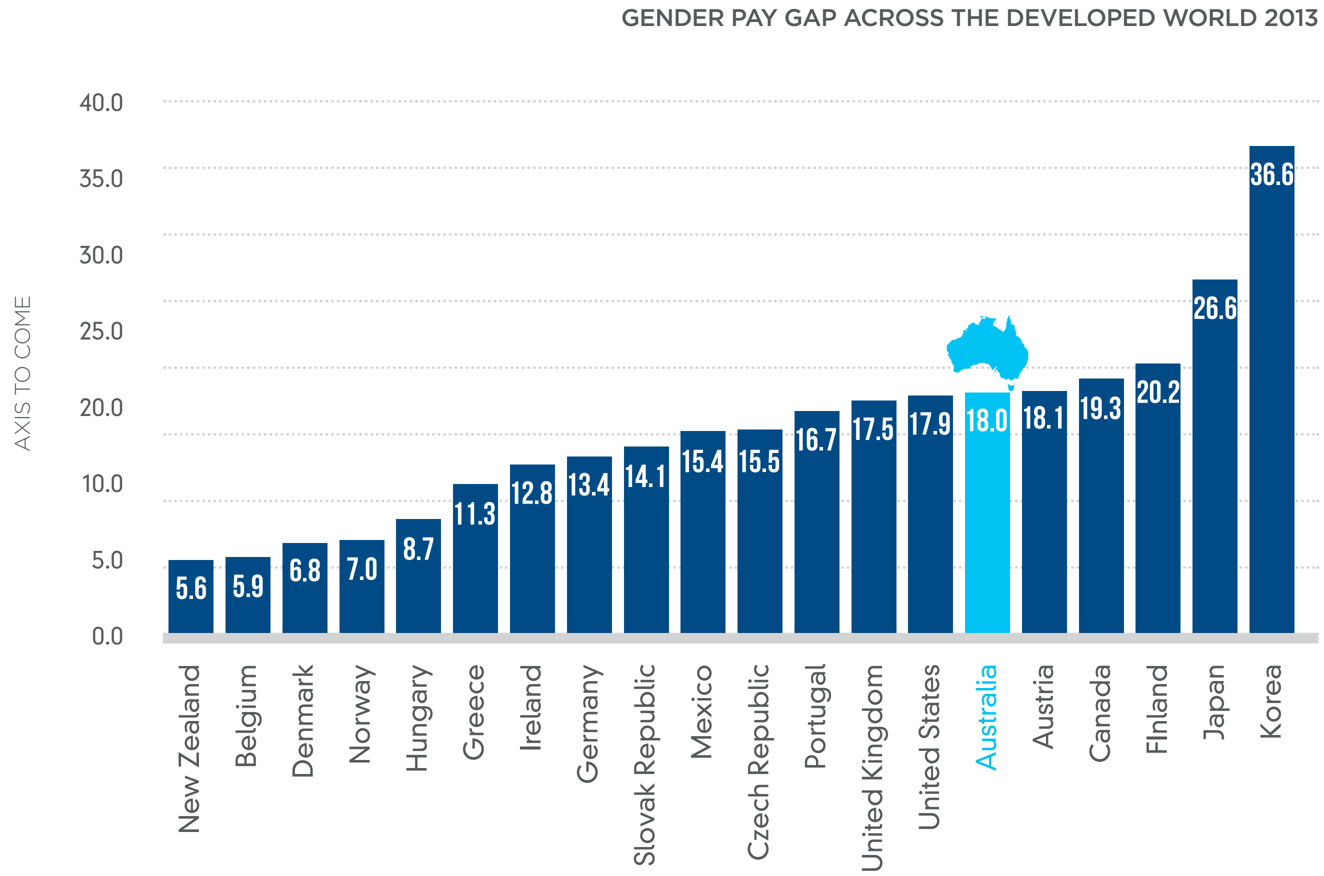
A wealth of research in the Australian gender pay gap over the last decade has not only identified growing earnings inequality between men and women, but also suggested the problem is arguably getting worse, not better, despite the increased attention. Social commentator Ann Summers famously declared in 2013 that there was a 'million dollar penalty' for being born a woman in Australia.[35] Her argument, alarmingly, is provable by examining the average career-span earnings of men and women. A 2009 report found that Australian men with a bachelor's degree were expected to earn $3.3 million over their career, compared to women with equal qualifications, who were expected to earn just $1.8 million.[36] When converting these earnings to a weekly earnings measurement, women earn on average around 17.5 per cent less than men. Concerningly, a similar gap has existed for over 30 years, with the gender wage gap being effectively stagnant since 1979, when women earned on overage 19.4 per cent less than men.[37] The gap has not closed, but has instead plateaued. The question therefore is not whether the gender gap exists, as many argue, but how to implement the appropriate policies that give women the equal opportunity to achieve similar life time earnings to men.

When Compared Internationally, Australia's Earnings Gap Falls Behind Other Developed Nations

With an earnings gap of around 18 per cent, Australia maintains one of the highest gender earnings gaps in the developed world, ranking behind only five other countries: Korea, Japan, Finland, Canada and Austria. At the other end of the spectrum, New Zealand has a gender wage gap of only 5.6 per cent, Belgium 5.9 per cent, and Denmark 6.8 per cent.

FIGURE 10

In 2013, Australia's gender pay gap ranked 6th worst in the developing world, according to data compiled by the OECD. Source: OECD Stat.



Closing the Gender Pay Gap Would Improve the Economy

The gender pay gap not only impacts the individual well being in Australia, but it also has a broader adverse impact on the Australian economy. The sustained gender wage gap negatively impacts wage growth overall, and therefore has a negative impact on GDP growth. In 2009, research conducted by the National Center for Social and Economic Modeling (NATSEM) examined the macroeconomic impacts of the gap in earnings. Accumulatively, every one percentage point of difference in male and female earnings was expected to adversely impact the Australian GDP by $5.497 billion, or approximately $260 per capita per year.[38] The NATSEM study estimated that if the entire wage gap was reduced (17 percentage points as estimated in the 2009 forecast), that there would be an approximate $93 billion boost to the Australia GDP. It is also important to highlight the longer term economic impacts of sustained wage inequity in Australia. The gender wage gap leads to an enormous discrepancy in the superannuation holdings of women and men entering retirement, which is tabled in greater detail in the following section. The figures outlined by NATSEM highlight the scale of the impact a sustained earnings discrepancy between men and women has in Australia, and why efforts to close this gap must be part of any policy blueprint moving forward.

Understanding the Determinants of the Gender Pay Gap is the Key to Closing It

Identifying why there is a gender pay gap is the first step in solving the problem. Doing so is vital, as the implications of the gender pay gap are real for the wellbeing of Australian women as well as the health of the economy overall. Despite the challenging, complex and diverse determinants of the wage gap, there are policy options that can be explored by governments that address the core issues that widen the gender wage gap. Determinants of the wage gap are diverse, but key drivers of the gap are thought to include the following:

GENDER DISCRIMINATION

- This includes not only different pay between genders, but also the difficulty for many women pursuing promotions or access to further training

CAREER BREAKS

- Career breaks brought about by family responsibilities, such as raising a child, or providing full time care to a family member, often have a significant impact on the trajectory of women's careers.

INDUSTRIAL SEGREGATION

- A significant proportion of Australian women work in highly 'feminised' industries. These industries are populated primarily by female employees, and include lower paying occupations such as retail, care and hospitality. This compares to higher paying industries dominated by male workers, such as the mining and construction industry.

OCCUPATIONAL SEGREGATION

- Occupational segregation refers to the differences in responsibilities men and women often have in the workplace. In most industries, leadership positions are still dominated by men.

UNDERVALUATION OF WOMEN'S SKILLS

- Traditionally feminised industries, such as caring or nursing, are often undervalued and therefore underpaid. Improving remuneration for these industries would be an important step in closing the broader wage gender discrepancy.

PAY SETTING METHODS[39]

- Many feminised industries are still operating under an inflexible awards system that does not enable female employees to negotiate higher wages.

By highlighting the core determinants of wage inequality in Australia, pro-active policy steps can be taken to enhance the overall equity in the Australian workplace, and improve the Australian economy more broadly.

The Impact of Job Insecurity Must Be Acknowledged

> "From all accounts, job insecurity is a bad thing and seems to be here to stay, but that doesn't mean we ignore it. Understanding how it affects people and productivity can influence government and corporate policy."
>
> ALINA TUGEND, NEW YORK TIMES

Job security – or job *insecurity* – can have an enormous impact on social wellbeing of individuals and communities, as well as the broader health of a local and national economy. It can affect worker's health and productivity in ways that are often comparable to the outright loss of one's job. The impact of unstable employment is also known to have a negative impact on family life and often result in a less productive and harmonious work environment, sacrificing labour efficiency and burdening individuals and the health system with stress related illnesses. Job security, in other words, is essential to a healthy and strong population and economy, and is 'directly related to human dignity'.[40]

While the level of job stability is inherently challenging to measure in the context of a national economy, the impact on individuals and the broader economic challenges of perceived job insecurity are more measurable. Social economists and econometric analyses have in recent years, particularly since the 2008-9 Global Financial Crisis and the subsequent instability in the global economy, focused significant attention on the impact on workers and the economy from actual and perceived job insecurity. A growing literature determines that workers who *perceive* their job is insecure often work excessive hours, damaging their personal health, social wellbeing and performance at work – despite the additional hours contributed to their profession. Research has also found that workers who fear the loss of their job are less likely to utilise support networks aimed at combating stress related injury and mental health issues. Ensuring greater job security in the workplace has enormous benefits to both employer and employee, and is central to the health and vitality of a strong and prosperous Australian middle class. Survey results from the 2013 Australian Election Study demonstrated that many Australians feel the burden of job insecurity.[41] 63 per cent of Australians surveyed stated that they felt it would either be 'very difficult' or 'somewhat difficult' for them to find another job in the 12 months after being surveyed. 47.3 per cent of those surveyed believed it would also be difficult for their spouse or partner to find another job if they needed to. Alarmingly, 41.4 per cent of those surveyed thought it was likely that their household income could be 'severely reduced' at some stage in the future. These statistics demonstrate that workplace pressures and feelings of job insecurity are real for many Australians.

Job Security is a Multifaceted Concept

Job security is a multifaceted concept that can be defined in numerous ways and measured from both a quantitative and qualitative perspective. The two most predominant definitions, however, relate to job *tenure* security and job *status* security.

Job tenure security relates to the anxiety an individual has regarding the loss of his or her job altogether. Job tenure security can have a significant impact on the health and wellbeing of the individual and their performance at work. Generally, those over 35 exhibit the anxiety surrounding job tenure security significantly more than younger workers, with research suggesting this is due to the enhanced sense of family responsibility associated with middle and older age.

Job status security is a different, but related concept to the actual fear of job losses. Job status is incredibly important to many workers, and the fear of demotion or loss of respect and responsibility within the workplace is rapidly becoming known as a similarly negative form of workplace anxiety and pressure. In economically challenging times, job status insecurity becomes more prevalent, as even those with comfortable and secure employment often feel the pressure of demotion, pay cuts or losing responsibility in the workplace.

> 'Put simply, job security is an important socio-economic variable because it impacts the welfare of workers, firms and societies'.
> BERTEAUX & QUENEAU, 2002[42]

Section 2 of this report highlighted the burden on the Australian economy of financial stress, and the burden of job insecurity significantly adds to the financial stress of a household. This report notes that 23.2 per cent of workplace stress overall is related to financial stress, with anecdotal evidence suggesting that job insecurity compounds financial pressures in households. Beyond the direct imposition of stress on the performance of workers, there is also a significant broader socio-economic cost of job insecurity and financial stress when factoring its impact on personal and family relationships. Relationship breakdown and divorce in Australia are expected to cost the Australian economy $4.3 billion annually. Ensuring greater job security in the Australian workplace will go a long way towards bettering the Australian economy, lowering divorce rates and relationship breakdowns, and improving the mental well-being of the Australian labour-force.

The challenges associated with an ever evolving workplace make ensuring job security increasingly difficult for policy makers. Greater job market fluidity and the automation of many manual, lower-skilled jobs are two forces that pose a challenge to future workers to maintain their employment. However, despite the challenges, a range of policy measures can be adopted that enable the workforce to continually adapt to changing skill requirements.

Portability of Entitlements Will Ensure Greater Workplace Confidence

> "According to the most recent estimates, for November 2015, there are 2,396,500 employees without paid entitlements"
> MARK WOODEN & SUE RICHARDSON, THE CONVERSATION, 2016[43]

Central to the confidence and security of the Australian workforce is a guaranteed commitment to workplace entitlements such as annual and long service leave. Although workers' careers are becoming more fluid with the average job tenure only three years, it is important that workers are able to access entitlements irrespective of the precariousness or fluidity of their employment. Because of the orientation of the workforce away from full time employment to casual and contracting work, many Australians simply aren't accruing the entitlements that were enjoyed and designed by past generations. The most recently available data has shown that almost 2.5 million Australian workers do not receive any paid entitlements due to the status of their employment.

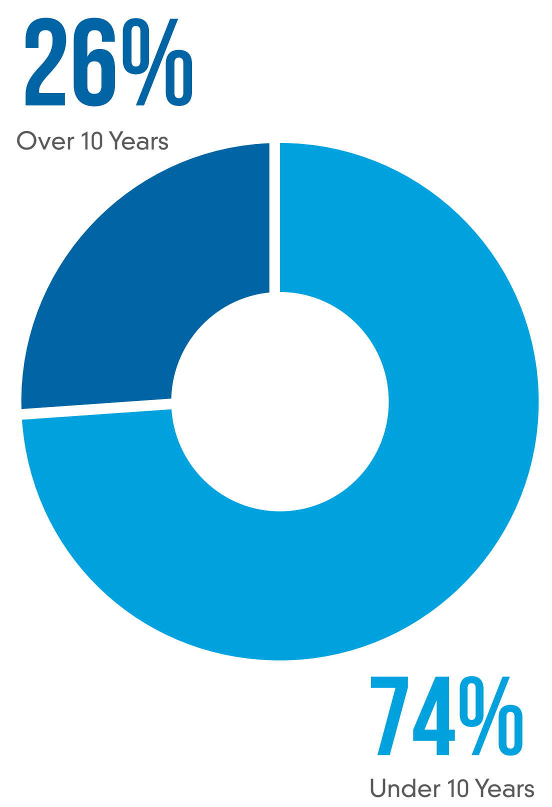
There has been a trend in the Australian workforce towards both casualisation and contracting, as well as an increased tendency for employees to shift employers with greater frequency than in any previous period in Australian history. Both of these transformative shifts in the Australian workforce have a marked impact on the ability for working Australians to take time off and accrue other entitlements.

The Average Australian's Job Tenure is Now Just Above Three Years

Chief among these trends has been the tendency for Australian workers to shift occupations and even careers at a much greater rate than at any time in Australia's history. And with the changing nature of an Australian workers' career path, an entitlements system must be implemented that is adapted to the modern Australian labour market. ABS data suggests that of the 11,933,400 Australians in the workforce only 3,102,684 workers, or 26 per cent of the workforce, have been employed in their current position for 10 years or more. This means that 74 per cent of the workforce have been in their positions for less then 10 years. This highlights the fluidity of worker's careers, where most now spend no more than three and a half years in a single position. This has an impact most notably on the ability of Australians to accrue long-service leave, an entitlement that has been a central component of the social contract since before federation in 1901.

In 2014, the McKell Institute released a report arguing the case for a national portable long service leave scheme. Such a scheme would enable workers to accrue long service leave irrespective of the fluidity of their employment. Currently, long service leave in many jurisdictions is accrued after 10 years of full time work with a single employer. If a worker moves on from a job after 9 years to a new employer, however, the long-service leave entitlement is often reset. Considering the average Australian works 17 jobs over a working life, for many, long service leave is an unrealistic luxury that is only achieved by a small, more privileged section of the community.

FIGURE 11
The breakdown of workers who have been in their current job for under or over 10 years. Clearly, the majority of Australian workers are not remaining in positions long enough to accrue long-service leave. Source: Australian Bureau of Statistics.



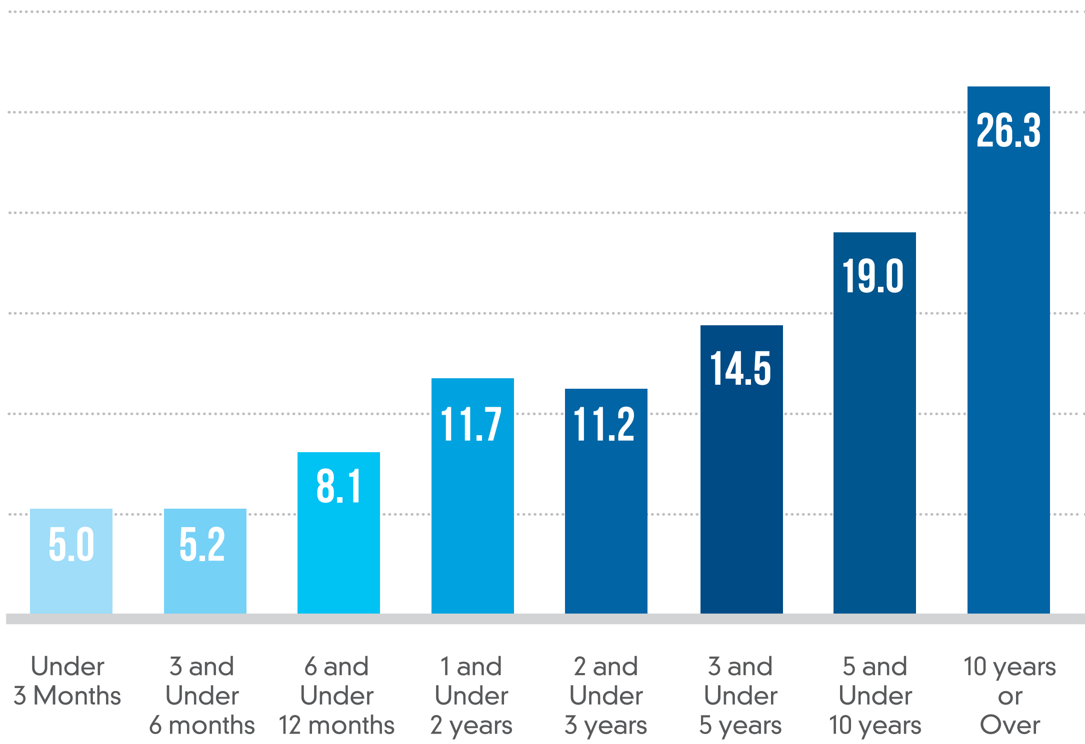
There is an Economic Benefit to Portable Workplace Entitlements

The established support at both community, business and government levels for leave and long-service leave is not based only on the fairness of such policies, but also the proven economic benefit associated with ensuring the workforce has the capacity to refresh after extended periods of work. But with the changing nature of Australian's working lives, many are not ever accruing long service leave and are thus unlikely to ever spend an extended period of time during their careers refreshing and ensuring their ongoing productivity. Similarly, there is an enormous economic benefit to having a workforce that remains flexible in its ability to transition between jobs. The nature of the evolving economy – an economy that is shifting towards a more heavily service and innovation based space – is such that it requires the workforce to adapt with the associated demands of changing economic conditions.

In the 2014 McKell Institute report into the portability of long service leave, it was noted that enabling labour mobility can have many positive economic effects.[45] Removing barriers to labour mobility better enables the workforce to move between different sectors as economic shifts occur. While many workers are involuntarily forced into changing occupations, many choose to do so to take advantage of new opportunities. But in doing so, most workers are resetting the clock on their long service leave entitlements. Removing this barrier would better enable the workforce to adapt to changing economic conditions without being restricted by concerns surrounding the loss of entitlements.

FIGURE 12

Duration with current employer, workforce breakdown, 2013.
This graph shows that the vast majority of Australians do not remain in one position for the predominant 10-year period required to received long-service leave.



PRIORITY AREA 2

ENSURING STRONG & EQUITABLE SUPERANNUATION GROWTH

- **Recommendation 5:** Improving the Gender Superannuation Gap.
- **Recommendation 6:** Examine the viability of greater superannuation concessions and benefits for those working in manual labour.
- **Recommendation 7:** Putting superannuation back on the path to 12 per cent.[46]
- **Recommendation 8:** Reform superannuation taxation by reducing super concessions for the wealthiest Australians, and hypothecating a percentage of the revenue generated back towards the funding of equitable superannuation polices, such as initiatives aimed at closing the *Super Gender Gap* and improving *Low Income Superannuation Contribution*.
- **Recommendation 9:** Ensure superannuation is paid on every dollar earned.

The Importance of Superannuation and The Challenges It Faces

Retirement adequacy is central to the Australian way of life and its social contract. In November 2015, the McKell Institute offered its submission to the Australian Federal Senate Inquiry into the *Gender Superannuation Gap.* This submission highlighted the dramatic discrepancy between the lifetime superannuation earnings of men and women in Australia. By retirement age, women average superannuation savings of $129,100 compared with men, who on average retire with $192,000 in superannuation holdings. One of the most concerning statistics identified in the McKell Institute submission is that 1 in 3 women hold *no superannuation savings at all.*

The McKell Institute submission tabled 9 core reform options aimed at reducing the superannuation gender gap. These recommendations included options for altering existing legislation, such as the Sex Discrimination Act and removing the $450 monthly superannuation threshold. Other options examined included the reintroduction of the Low Income Superannuation Contribution (LISC), a government payment that contributed to the superannuation holdings of Australia's lowest income earners, and reforming superannuation tax concessions to raise further revenue, among other recommendations.

The 2016 Federal Budget brought some welcome announcements regarding superannuation policy – chiefly, the announcement that the LISC will not be removed. Maintaining the LISC will enable lower income Australians to continue to access a $500 annual government contribution to their superannuation account. This is a welcome announcement, but merely reversed a previous decision by the current government to remove the LISC. While the LISC is a vital component of the superannuation system, the $500 contribution will soon grow inadequate when factoring in inflation and a rise in the Consumer Price Index (CPI). **This report suggests the Government consider pegging the LISC to the growth in the CPI.** Doing so would ensure the Government contribution to less well off Australians' superannuation accounts maintains its current level of support into the future and does not diminish over time.

While closing the *Super Gender Gap* is pivotal to the future of Australia's superannuation system, it is just one of many challenges facing Australians at retirement age. Not only is there a gender gap in Australians' superannuation holdings, but there is also a sectoral one, with workers in lower income industries often facing significantly lower superannuation holdings at retirement than those who have earned a higher wage throughout their career . With the retirement age in Australia formally rising to 70,[48] many Australians will continue working longer and having shorter retirements. However, for those working in physically intensive jobs, working until the age of 70 is an unrealistic proposition. Accordingly, much of the superannuation policy moving forward will be structured with the expectation that all Australians should be working until the retirement age, despite the reality that for many Australians, this will be physically challenging or unachievable. With this in mind, superannuation policy moving forward needs to consider the variety of occupations that exist that involve physical labour, and offer superannuation policies that factor in earlier, forced retirement due to physical deterioration.

Putting Superannuation Back on the Path to 12 per cent

In the 2012-13 Federal budget, the government announced its plan to raise the superannuation guarantee from 9 per cent to 12 per cent by 2022-23. The rationale behind this reform was that the existing 9 per cent superannuation guarantee before 2012 was simply not delivering enough retirement savings for the average Australian. When Australians do not have enough self-accumulated retirement income, this places a greater strain on the taxpayer funded pension system. Therefore, by increasing the superannuation holdings of all Australians, the federal budget in the long term will be placed under less strain.

With the change of government in 2013 came a change in federal superannuation policy. The 2014 budget saw changes to this policy, with the superannuation guarantee stalled at 9.5 per cent until 2020, and then increase periodically to 12 per cent by 2025, a delay of at least two years. However, the willingness of the current government to alter the legislated superannuation guarantee has raised doubts in the community

about whether the current arrangement will survive unchanged until 2025. The rationale behind delaying the rise to 12 per cent was that raising the superannuation guarantee could harm job creation. Knowing this, the public is right to be concerned that similar arguments could be put forward in the future, thus delaying the growth of the superannuation guarantee over the long term.

Recent forecasts have suggested that there will be an '$830 billion gap between the amount of superannuation savings people will need for retirement and what people would have actually saved by retirement' by 2050.[49] By continuing to delay the increase in the superannuation guarantee, the financial challenges of the future generation of Australian middle class retirees will only be compounded. It is important to acknowledge that the intention to increase the superannuation guarantee to 12 per cent has been long standing, and is not a dramatic or new idea. Former prime minister Paul Keating advocated for a 12 per cent superannuation guarantee as far back as 1988, when the original superannuation policy was first legislated.[50] A 12 per cent superannuation guarantee has long been sought after, and will deliver real benefits to Australia's current and future working and middle classes, as well as helping the budget move towards surplus by reducing the pressure on the pension system.

Ensuring Contractors and Irregular Workers Receive the Required Superannuation

While the superannuation 'guarantee' is a given for the majority of Australian workers, there are many who still miss out on the required contributions to their superannuation accounts. A 2006 survey noted that only 43 per cent of Australian employers were fully compliant with their superannuation obligations, while 45 per cent were only partially compliant. Up to 12 per cent of employers surveyed did not pay any superannuation contributions at all.[51] Although cases of employers, particularly small businesses, not complying with regulations is often caused by a lack of understanding of the obligations, occasionally the reasoning is more nefarious. A trend exists for some employers to encourage their labourers to classify their employment as contracting, therefore minimising the superannuation responsibility of the employer. Contractors – and casual workers – often miss out on their full entitlements under existing superannuation laws. And with an increasing percentage of the Australian workforce becoming casualised or employed as contractors, the chances of individuals not receiving the legally required superannuation contributions rises.

While contractors occasionally miss out on a fair superannuation contribution for their labour, so too do irregular workers who work only a few hours per month, people who work occasionally over several occupations per month, and casual workers under the age of 18. Current superannuation laws mean workers who earn less than $450 a month from an employer are not entitled to any superannuation contributions. The rationale behind such a law is that administering superannuation payments for occasional employees is burdensome and the contribution will be insignificantly small. However, such reasoning ignores the increasingly dynamic and fluid working life of Australians, particularly those new to the work force or working as freelancers and labourers for multiple clients. It is important that workers receive the superannuation guarantee for *every dollar earned,* and that processing superannuation payments for employers is increasingly streamlined to ensure any administrative burden is minimised. This will enable younger workers to save earlier, despite inconsistent work patterns, and will significantly improve the equity in the superannuation system.

In ensuring long term financial security into retirement, it is vital that the superannuation guarantee lives up to its name, and is guaranteed for all working Australians for every dollar earned.

PRIORITY AREA 3

IMPROVING ACCESS TO & QUALITY OF EDUCATION

- **Recommendation 10:** Improving the Quality and Ensuring the Long-term Affordability of Higher Education.
- **Recommendation 11:** Improving the Affordability and Accessibility of Early Education and Child Care.
- **Recommendation 12:** Reforming Early Education to Improve Early Learning Outcomes.
- **Recommendation 13:** Adopt the Gonksi Education Reform Agenda Recommendations in Full.

There is an Irrefutable Link Between the Quality of a Nation's Education System and the Health and Vibrancy of its People and Economy

Australia has a strong education system: Australian children are finishing high-school at record rates, with tertiary graduation rates similarly on the rise.[52] On the surface, Australia's education system is strong. But when analysed at a more granular level, the system is not achieving what it should for many students, and needs significant improvements – particularly in the areas of STEM (science, technology, engineering and maths) education – to improve Australia's educational standards and international competitiveness. Wholesale reforms of the sector have previously been pursued. The Gonski education reforms, authored by David Gonski between 2010 and 2012, advocated strongly for significant reforms to the sector based around the individual needs of students.[53] The Gonksi process was an exemplary example of public policy development, achieving community and political consensus before its passage as legislation. However, many of the core principals of the Gonski reforms have since been wound back by the current Government, leaving the sector in a state of much needed reform. Education reform in Australia must focus strongly on all forms of education, including early childhood education and university and non-university tertiary education. A strong education system means a stronger Australian middle class, and the following recommendations provide some of the means to achieve a more robust, fairer and higher quality Australian education system.

There is a Case for Evidence Based Education Reform

The debate surrounding education policy in Australia is too often narrowed to simply a matter of funding. Of course allocating appropriate levels of funding towards a variety of education policies is vital, but increased funding must also be met by a willingness to adopt evidence based measures aimed at improving student outcomes throughout Australia. The Gonski reform package is important in both providing evidence based reform to the education sector, while advocating for the distribution of further resources where it is needed most. Over the last two decades, a wealth of research has been undertaken that has identified the major determinants to the success of students. Harvard University scholars Roland Fryer and Will Dobbie authored a comprehensive study assessing the attributes that contributed to the high educational outcomes in some of New York's best performing schools. Traditional quantitative statistics that many researchers have assumed had a causal relationship with student outcomes have been found to be inadequate:

> "The vast majority of quantitative analyses only account for inputs such as class size, per pupil expenditure, or the fraction of teachers with an advanced degree. Measures of teacher development, data driven instruction, school culture, and student expectations have never been collected systematically, despite decades of qualitative research suggesting their importance"
>
> DR. ROLAND FRYER & DR. WILL DOBBIE, HARVARD UNIVERSITY[54]

To better understand how to allocate additionally available funding to achieve better student outcomes, an honest and innovative approach to school and higher education reform must be prioritised. Harvard University research has identified five causal factors that determine the effectiveness of schooling in the United States: teacher development; increased time in school (slightly longer school hours and school year); more student level differentiation (needs based funding and tutor attention); the use of data in identifying outcomes; and fostering a culture of high expectations for students and the schooling system more broadly. Implementing or improving these five determinants across underperforming school's in Australia is vital for the future education outcomes of Australian students.

The Affordability of Australian Tertiary Education Must Be Ensured

Australia's tertiary education is world class, with the tertiary institutions among the worlds finest. The higher education fee-deferment scheme, HECS, is the envy of much of the developed world and enables students from all walks of life to enter university. However, despite the successes in Australia's tertiary education sector in the past, enabling constant success in a highly competitive global education market requires constant reappraisal and reform of the sector to ensure the best outcomes for students, and the best long term outcomes for the Australian economy.

Recent reform attempts have centered around the deregulation of university fees, which is aimed at enabling universities to charge students fees that are less regulated, creating higher cost differences between lower-intensity degrees, such as the arts and social sciences, and more highly skilled degrees such as medicine or law.[55] Institutions under a more deregulated fee structure would be able to also charge higher fees relating to their place within the university market, and benefit from the brand dominance they have within Australia. The more established and popular universities, under a deregulated structure, would likely remain more popular and would be encouraged, by market forces, to raise their prices higher than smaller, lesser known institutions. Such reform attempts, while theoretically aimed at enabling universities to raise more revenue and improve services, run a genuine risk of putting quality university education out of the reach of many Australians. Other reform options have included limiting the number of university places to lower the cost-burden on government on universities, and offsetting the impact of fee deregulation by simply increasing scholarships for lower socio-economic status individuals.[56] However, these changes would be unlikely to offset the overall impact of deregulation. Such changes could also undermine many of the core strengths of Australia's education sector – that all Australians can achieve a high level of education, irrespective of their socio-economic background. This is a core policy pillar that facilitates the extension of equal opportunity to every Australian.

Higher Education Policy Should Be Similarly Needs-Based

While a pure deregulation of the university sector runs the risk of excluding many Australian's from achieving higher education in the long term, there is a clear need for the university sector to continue reforming to keep pace with the current and future workplace skill requirements. Key to enabling all Australians access to an equitable higher education sector is ensuring the pathways to entering tertiary education are there for individuals of all socio-economic status'. Holistic reform of the education sector is important in ensuring that all Australians receive high quality secondary education, but there will always be individuals who do not succeed at secondary school to the level required to immediately access tertiary institutions. For these individuals, greater resources should be made available for entry into the higher education sector, whether it is through funding further pre-university training, or incentivising these individuals to engage in study relevant to employment in industries with significant skills shortages.

Vocational Education & Training Can Lead to a Higher Standard of Living

It is important to acknowledge that tertiary education is not and should not be the only pathway to achieving a higher standard of living in an advanced country such as Australia. Adequately investing in vocational education and training – education that prepares workers for a career in a trade or a craft and in some cases, professional and support type roles – is central to enabling all Australians access to a diversity of employment opportunities irrespective of background, interests and existing skills. Ensuring adequate investment in a high quality vocational education sector leads to a workforce that has access to the diversity of skill sets required in a transforming economy. Vocational education is also essential in providing pathways to employment. OECD research has previously demonstrated that graduates from vocational education do extremely well in the Australian labour market. 85 per cent of vocational education graduates from Australia tend to find employment soon after graduation,[57] the second highest rate in the OECD after Iceland. Simply, vocational education is essential in providing pathways to employment, and ongoing upskilling throughout careers. A debate on the future of education policy must always accommodate vocational education and training, and recognise its centrality in providing an equality of opportunity throughout Australia.

Improving Total Education Outcomes Start with Investment in Early Education

Australia has long under-invested and undervalued early childhood education. In the McKell Institute's 2014 report *Baby Steps or Giant Strides*, it was argued that Australia is lagging significantly behind in both the quality and quantum of investment in early childhood education services. There remains a culture in Australia that does not prioritise education outcomes in early childhood centers, with government investment to this date reflecting this cultural shortfall. In other countries, notably Norway, the United Kingdom, France, New Zealand and the Quebec provence of Canada, a diverse set of entitlements, regulations and other government investments have resulted in a large rise of enrolment in early childhood education. The UK is in fact a leading example, offering all children up to 20 free hours per week of early childhood education irrespective of parental income and background. In many places in Australia, it is simply unaffordable to pay for childcare five days a week, with costs often reaching upwards of $140 per day, or $700 a week.[58] Such costs are unsustainable and discourage parents of younger children from re-entering the workforce after parental leave. Targetted investments in childcare and early childhood education are required to lower costs, drive efficiencies, and enable parents to return to the workforce soon after parental leave.

Australia today spends 0.6 per cent of GDP on early childhood education and care – noticeably less than the OECD average of 0.8 per cent.[59] But not only is the quantum of funding an issue in the early childhood education policy, so too is the way that existing funds are being spent. While Australia is now spending more on early childhood education and care than at any time in its history, the majority of this has simply been as a result of the expansion of the child care rebate to accommodate rapidly escalating childcare and education costs. The childcare rebate is undoubtedly essential in assisting families afford early childhood education and care costs, but the rising price of these services themselves is the key determinant of the increased government expenditure in the sector, not sectoral reform. Despite the increase in this spending, outcomes have not significantly improved in recent years. The sector needs wholesale reforms that focus on quality pre-schooling, better remuneration and professionalisation for early childhood educators, and improve the accessibility issue for early childhood education for all Australian children.

PRIORITY AREA 4

IMPROVING HOUSING AFFORDABILITY

- **Recommendation 14:** Grant home-owners the choice to replace Stamp Duty with a more equitable, ongoing land tax.
- **Recommendation 15:** Reform negative gearing so that it only applies to new properties purchased.

Housing affordability is the central economic issue facing future generations of working and middle class Australians. Across the country, younger workers entering the middle class are increasingly realising their ambition to own a home is becoming unrealistic.

The housing affordability crisis in Sydney is well documented – the cost of the average house in Sydney is now more than 12 times that of the median annual income.[60] But housing affordability is indeed a national issue, with a generation of inadequate policy foresight responsible for fostering an era of unaffordable accommodation nationwide, and particularly in Australia's capital cities. Ensuring housing affordability is central to strengthening the middle class. Currently, more than 30 per cent of the average household expenditure is on housing. When adding other essential expenditures, such as utilities, education, insurance and transport costs, for many, little disposable income remains to contribute more broadly to the economy. By reducing the disparity between housing prices and median incomes, working and middle class Australians will be able to contribute more to the economy overall. As the McKell Institute's 2012 *Homes for All* report notes, the housing affordability crisis has been driven by poor public policy choices, but can be salvaged by adopting sensible and fair policy positions moving forward.

A Link Exists Between Affordable Housing and a Strong Middle Class

There is an indisputable link between a fair and affordable access to housing and economic opportunity. Not only does the increasing expense of housing constrain individuals' ability to afford non essential goods and services, the disruptive nature of the continued search for affordable housing has a significant impact on a family's ability to settle into its environment, and increased housing mobility has a direct link with poorer education outcomes. Research has demonstrated that children in families forced to move because of unstable housing situations tend to have poorer educational outcomes.[61] This is particularly evident when families frequently move during a child's adolescence, with a smaller correlation noticeable when families with younger children are forced to frequently move. This is important for the overall strength of the middle class, and the opportunity to move up into the middle class, as the link between stable and high quality education throughout childhood and greater economic opportunity is clear.

Unaffordable Housing Constrains Job Growth

Affordable housing is also vital for economic growth. Reason would suggest that by making housing entirely unaffordable, people are dissuaded from moving to expensive communities. This would have an impact on the diversity of residents in areas with unaffordable housing. This idea has been empirically tested and proven by research in the United States. A study by the *New England Public Policy Center* identified that unaffordable housing correlates with suppressed jobs growth in certain communities.

> "Persistently higher housing prices in certain regions always cause concerns in those areas, because unaffordable housing is expected to have negative effects on the local economy".
>
> CHAKRABART & ZHANG, 2010[62]

A key reason for the link between less-affordable housing and low employment growth is that usually when an area has unaffordable housing, it is due to a lack of housing supply. As housing stock stagnates in certain areas and the price increases, there is little direct economic activity generated by the construction of new houses and apartments, and little ability for new residents to populate such regions, prohibiting the area from diversifying its economy and creating new jobs.

Today's Australian Housing Market is Inequitable

Housing is becoming extremely unattainable for new home buyers. Existing arrangements are fundamentally inequitable – supply is not meeting demand, the younger generation are being increasingly entrenched in the rental market with no credible path to home ownership, and existing tax arrangements such as negative gearing are oriented towards existing home owners or property investors in higher income brackets. Reform to the housing market is therefore a key component of re-orienting Australia's economy towards a more equitable space.

Sensible Policies on the Table to Improve Housing Affordability Should Be Legislated

While the reality is that poor public policy choices over the last several decades have led to the unsustainable state of housing affordability, fortunately, through the right public policy choices moving forward, the growth in house prices can be slower and affordable housing can once again be within reach of future generations. The McKell Institute has made two substantial policy recommendations aimed at reducing the burden on Australian families associated with buying a new house: reforming negative gearing, and reforming stamp duty.

Reforming Negative Gearing is Vital to Improving Housing Affordability

Reforming negative gearing policy is central to fostering greater housing affordability in the long term. Currently, negative gearing arrangements enable investors to claim losses on properties through the tax system, encouraging investment in existing housing stock over the investment in new properties. While negative gearing certainly has a place in the Australian economy, it has been poorly oriented in favour of property investors as opposed to new home buyers, or families who want to move home. In 2015, the McKell Institute released *Switching Gears*, a report that advocated for the removal of negative gearing on existing properties while maintaining it for newly built properties. This policy option also recommended grandfathering all existing negatively geared properties, ensuring that all existing home owners who have fairly and legally purchased properties under existing negative gearing arrangements are not retrospectively impacted.

The proposed changes to negative gearing outlined in *Switching Gears* aim to encourage new housing construction, easing the supply pressures that have been central to inflating prices in recent years. Subsequent research by the McKell Institute has found that the impact on housing price growth by the proposed changes would be minimal, with house prices continuing to grow under the proposed reforms, albeit at a slightly lower rate than business as usual. This is good for current home owners, as their properties will continue to rise in value, but better for future home buyers, who will see the ratio of their income to house price close in the coming years if these changes are implemented. Notably, the Federal Opposition adopted the negative gearing reform policies tabled in *Switching Gears* as part of their 2016 election platform. Importantly, by encouraging the construction of more housing stock, price growth is expected to be alleviated for both renters and those looking to enter the housing market.

Reforming Stamp Duty and Introducing Land Tax Alternatives

Stamp duty is a widely derided taxation on the purchase of property that makes up a substantial portion of state government revenues across Australia. The costs, however, are significant, and prohibit many new home buyers from being able to enter the housing market. Home buyers aiming to purchase a house of median value in the Sydney market, under current stamp duty arrangements, are expected to pay over $40,000 in upfront tax[63] – as well as a deposit – to purchase a home. This understandably prohibits many new home buyers from entering the market. Accordingly, it is sensible to suggest that stamp duty must be reformed to enable new home buyers the chance to enter the market, while simultaneously providing ongoing, stable revenue for state governments.

In March 2016, the McKell Institute published *A Plan to End Stamp Duty: Making Property Taxation Fairer in New South Wales.* In this report, a plan was laid out that would replace stamp duty with an ongoing, longer-term annual land-tax payment of comparable value instead. This option would remove the barrier to purchasing a new home, and instead expand this cost imposition over an extended period of time. *A Plan to End Stamp Duty* calculated that the total revenue stream coming to state government would match existing revenue generated through stamp duty.

Giving Home Owners the Choice

While a complete stamp duty/land tax switch would be favourable for most home buyers, other options could be implemented that give consumers the choice between paying up front stamp duty or a longer term land tax. This report recommends further study into the option of a preferential home ownership taxation system, where home owners can opt in to either an up front payment of stamp duty, or agree to a longer term taxation on the value of their land to a comparable value. Such a measure would create a more equitable housing market for new home buyers in particular, and provide the same ongoing revenue predictability that state governments rely upon to deliver essential services.

These two key recommendations – reforming negative gearing, and reforming stamp duty across Australia – are essential reforms if housing affordability is to be seriously addressed in Australia. Not only will this benefit younger home buyers, it would also improve the budget bottom line for both state and federal governments and strengthen Australia's economic standing overall.

PRIORITY AREA 5

TAKING ACTION TO ELIMINATE TRANSPORT DISADVANTAGE

- **Recommendation 16:** Launch an inquiry into *transport disadvantage*, and acknowledge overcoming transport disadvantage as a key goal in the development of future infrastructure projects.
- **Recommendation 17:** Harmonise state and federal government infrastructure priorities by strengthening the independence of Infrastructure Australia.
- **Recommendation 18:** Financing more infrastructure through funding measures like value capture.

Transport Disadvantage is Holding Australians Back

Transport disadvantage refers to the inability of certain sections of the community to access transport services. These services not only enable individuals to contribute to the economy, but also gives them the opportunity to access key education and healthcare facilities, as well as engage in social and community activities. Limitations to adequate transport services impact upon a community's ability to access opportunities, and inadequate transport services in specific areas can entrench socio-economic disadvantages. To adequately extend to the Australian working and middle class appropriate economic opportunity and social inclusion, it is vital that every citizen has easy, fast access to essential services and a multitude of workplaces. Ensuring transport disadvantage is overcome requires a greater and more efficient investment in public infrastructure, as well as generating the appropriate revenue to enable such investment. The following recommendations advocate for these measures, as well as a broad inquiriy into the scourge of transport disavantage in Australian cities and rural areas.

A lack of access to adequate transportation impacts not only Australia's economy, but also the social and economic inclusion of the Australia's working and middle class. Too often, key infrastructure projects are focused on at the expense of a holistic approach to transport policy. Solving inequities in access to transport should be at the core of the decision making process surrounding infrastructure development. In doing so, infrastructure development is better placed to cater for the needs of the entire population and enable a greater economic contribution from those in areas that have the least access to transport.

In the 2016-17 federal budget, the Federal Government tabled an initiative aimed at generating more innovative methods of funding public transport development. The initiative valued at $50 million, would see a new body established that examines innovative funding means, such as incentivising private investors to invest in public transport by the Federal Government guaranteeing their loans.

It is this report's recommendation that the new Federal body established by the government to explore funding options for public transport development should similarly focus on identifying geographic areas where transport disadvantage is most acute, and target any government incentives towards such disadvantaged areas.

Transport Planning Should Be Harmonised Across State and Federal Governments

A common impediment to the adequate delivery of public infrastructure is the overt politicisation of important, nation building infrastructure projects. Numerous examples in recent years display evidence of misaligned transport priorities between state and federal governments that naturally result form political differences in each jurisdiction.[64] Conflicting priorities, political party backgrounds and budget commitments mean that for a state and federal government to agree on the provision of infrastructure, there are many hurdles to overcome. Too often, these differences delay key infrastructure projects with the end result being poorly serviced communities across Australia.

Attempts at depoliticisation of the infrastructure planning process have been made in the past and with a notable impact. *Infrastructure Australia*, an independent government agency, is charged with identifying and advocating for the most vital public infrastructure projects across the country. *Infrastructure New South Wales*, has developed a similar model, but key decisions on moving ahead with important projects lay elsewhere. This report recommends that further authority and resources be allocated to *Infrastructure Australia*, and that the infrastructure investment oversight body proposed in the 2016-17 Federal Budget acknowledges solving transport disadvantage as a key policy objective in future infrastructure investment decision making. Solving transport disadvantage must be a central objective of infrastructure policy making in Australia To this end, a national inquiry should be held looking at ways to harmonise the infrastructure decision making process across jurisdictions, and ensure that all projects moving forward factor in the national challenge posed by transport disadvantage.

Innovative Revenue Raising Methods such as Value Capture Should Be Widely Implemented

Key to continued investment in vital infrastructure delivery is sourcing and allocating the appropriate resources for such projects, and ensuring the costs are achievable. One innovative funding mechanism that is becoming more widely implemented internationally is value capture. Value capture refers to the ability for joint development projects to 'generate revenue for transit agencies'.[65] In essence, value capture works by implementing a targeted levy or tax on the increased value of businesses and properties that results from better transport infrastructure surrounding those premises. This revenue mechanism has been most notably used on the Cross City Rail in London – the largest infrastructure project currently occurring in Europe. The project – with a total value of over GBP £50 billion – generates a significant portion of its funding through a business rates levy on the businesses likely to benefit financially from closer access to quality transport services. While the project receives much of its funding from sources other than value capture, it provides a sound model that can be adapted to the Australian context.

Beyond value capture, other innovative ways of reducing the cost of public infrastructure should be explored. In March 2016, the McKell Institute released a report into how to reduce the cost of infrastructure delivery in Australia. In this report, several reform options were tabled. Firstly, the depoliticisation of the infrastructure planning process was advocated. Secondly, it was recommended the planning process become more efficient, with known transport corridors being acquired and utilised by governments early in order to ensure the property required for future infrastructure projects is available. Thirdly, the report noted the need for a streamlining of the bidding process for infrastructure projects. Fourthly, skills licensing across the construction industry needs to be harmonised. And finally, the report recommended – as mentioned above – embracing value capture financing to fund key projects. Such a broad suite of recommendations is central to overcoming transport disadvantage, and to extend equal access to vital services and employment to all Australians.

PRIORITY AREA 6

INVESTING IN THE 'NEW ECONOMY'

- **Recommendation 19:** A better national focus on STEM at all education levels.
- **Recommendation 20:** Allocate more resources towards retraining and upskilling the existing workforce.
- **Recommendation 21:** Invest more government resources across the entire innovation chain, from early research and development to business development and ongoing support.
- **Recommendation 22:** Increase percentage of GDP expenditure on research and development to above the OECD average of 2.4 per cent.

The recommendations previously tabled in this report have oriented toward ensuring Australians can access affordable housing, job stability and wage growth, improve their superannuation adequacy and have access to equitable and reliable public transport. However, this report also notes the necessity for governments and businesses to invest in the changing nature of the Australian economy and embrace the new industries that will define the future Australian workforce. As well as preparing for and embracing economic shifts in the business community, the Australian workforce of today and tomorrow must be prepared, and must be able to access the prerequisite skillsets that are becoming increasingly in demand in the workplace.

Much commentary in recent years has discussed the end of Australia's 'mining boom' – the resource fuelled economic growth of the late 1990's and early 2000's – and the challenges associated with transitioning away form a resource based economy. And while the resource sector will continue to be a vital part of Australia's economy in the future, it is now clear that in order to continue the level of economic growth seen over the past few decades in Australia, more economic diversification is required. This means enticing new industries in the tech and advanced manufacturing sectors, embracing more modern and innovative agricultural practices, and facilitating the creation of new and currently non-existent industries into the future.

Training and Upskilling Must Be Available to All Workers

As well as incentivising businesses to expand, enter the Australian market, or generate new products and services, governments should focus on the adaptability of the workforce to a changing economy. This report welcomes the focus of recent political debate on innovation policy – particularly the advocacy from the Federal Opposition and to some extent the incumbent Government regarding additional places in university for STEM students. However, while the sentiments are encouraging, actionable policies need to be put in place to encourage the next generation of workers to develop the necessary skills sets to adapt to a fluid jobs market. As previously mentioned in this report, the average Australian will work over 17 jobs in their life, with the average job tenure of less than 4 years. Clearly, with such job-market fluidity and the proliferation of new industries, the Australian workforce needs to be multi-skilled. All classes of Australians should have equal access to all the necessary resources to access further professional and vocational skills training as their careers transition.

Appropriate Investment is Needed at All Levels of the Innovation Chain

In 2015, the Australian Federal Government unveiled a new policy platform aimed at encouraging investment in innovative and high technology industries.[66] The $1.1 billion platform included several significant reform ideas, including tax incentives for investors, $200 million towards the CSIRO to help find researcher-generated start-ups, $11 million to establish 'landing pads' in international technology regions such as Silicon Valley and Tel Aviv, as well as additional polices such as adjusting visa arrangements to encourage international entrepreneurs.[67] Many experts agreed that the National Innovation and Science Agenda was a good start at facilitating investment and employment in the tech and start up sector, but that more is required to boost further investment.

Compared Internationally, Australia's Investment in R&D is Low

Australia is lagging behind significantly in the total investment at all levels of the supply chain. However, where this is arguably most acute is in research and development – not only in the innovative technology sector, but across the entire economy. According to the OECD, Australia currently spends approximately 2.11 per cent of GDP on research and development – below the OECD average of 2.377 per cent, and significantly below the leading tech countries of the United States at 2.74 per cent, Israel at 4.1 per cent, and South Korea at 4.3 per cent.[68] In terms of the number of researchers per 1000 full-time employees, Australia actually sits modestly above the OECD average, with 8.98 researchers per 1000 full-time employees. The discrepancy between moderately low expenditure on overall research and development and the high number of researchers suggests that although many Australians are employed in research, they are simply not receiving the funding required to deliver better outcomes. Closing this discrepancy, and boosting Australia's total research and development spending to at least the OECD average should be a priority for the Australian government.

Government-Guaranteed Loans Should Be Available for the Start-Up Sector

What is essential in facilitating greater investment in innovative industries is the distribution of investment at all levels of the innovation chain – from research and development all the way through to investing in new industries, and providing ongoing industry support. Other jurisdictions – notably the United States – have also provided significant government-guaranteed loans to promising enterprises. Obviously, such a policy has some inherent risk to government. A famous case in the United States involved a solar-technology company, Solyndra, which soon after receiving a $535 million government backed loan filed for bankruptcy and defaulted. Less discussed, however, is the case of Tesla, which received a $435 million US government-backed loan the same year that Solyndra defaulted and has subsequently gone on to become a leading technology company in the United States.[69] Other examples of active state intervention in the start up sector have reaped notable rewards in the United States. Apple and Microsoft are two companies which received significant government support at the earliest stages of their development, and have gone on to contribute significantly to the US and global economy.[70] Similar government-guaranteed loans should be considered in the Australian start-up and innovation sector to encourage risk taking in the private sector.

An Honest Conversation about Economic Transition is Needed

To many working and middle class Australians, the idea of a 'new economy' is a daunting one. Ensuring that Australians understand the benefits, opportunities and challenges of economic transition is key to successfully enabling the Australian middle class to embrace new opportunities. Central to this conversation is the assurance that the middle class won't be left behind in this transition, but will be central to its success. To this end, further policy discussions will have to be had by all sides of politics to ensure that the necessary shifts in the Australian economy are targeted in a way that benefits working Australian families, and continues to provide economic opportunity to all. Implementation of the previous recommendations in this report would assist in mitigating the social and economic challenges associated with economic transition to the new economy.

PRIORITY AREA 7

MODERNISING AUSTRALIA'S HEALTHCARE SYSTEM

- **Recommendation 23:** Government should invest greater resources into the hamornisation of healthcare data sets to ensure faster and more accurate patient outcomes and a more efficient and affordable healthcare system.

Australia has a strong world class health system. However, in order to keep up with the pace of technological change, a growing and ageing population, and an era of increasing federal budget deficits and rising debt, innovative ways of modernising Australia's healthcare provision for the improvement of service delivery and reduction of costs is essential.

Section 2 of this report quantified the economic benefit of reducing rates of smoking in Australia as potentially having a positive $4.1 billion effect on the Australian economy. While it is a challenge to accurately quantify the economic benefit of reducing illness on and improving healthcare delivery, it is reasonable to predict an enhancement of healthcare services in Australia would have a similarly positive benefit on the economy overall. Australia's healthcare is world-class, but the uptake of modern technologies that enable the harmonisation of healthcare services across the country has been slow, and is running significantly behind other comparable countries.

Australia currently spends slightly less than 9.4 per cent of gross domestic product on healthcare, marginally below the global average of 10 per cent.[71] In real dollar terms, this equates to around $154.6 billion,[72] or approximately $6248 per Australian per year.[73] But while expenditure is – by international standards – under control, and the majority of Australians have ample access to high quality healthcare, there are countless examples of failings within the system, many of which could have been prevented through the use of more sophisticated healthcare technologies that can improve diagnosis and communication between different tiers of the health system.

Catering for an Ageing Population Requires Adaptive Thinking

In 2015, the McKell Institute released a report into the ageing population and the role technology can play in improving healthcare provision entitled *Positive Disruption: Healthcare, Ageing & Participation in the Age of Technology.* This report noted several anecdotal examples of shortfalls within the healthcare system that significantly impacted patient outcomes and demonstrated costly inefficiencies that could have been prevented through better harnessing modern technologies. In one notable case, nurses in emergency wards were required to manually input data in their hospital's computer system, despite the fact that the ambulance paramedic had already typed this data into her own mobile laptop computer because the two systems were not linked.[74] This case resulted in a delay in information transfer from the emergency services medic to the hospital staff, impacting patient outcomes.

In many hospitals, cumbersome paper records are still frequently used. In short, much of the Australian healthcare system has not embraced and implemented modern technologies that could harmonise diagnosis, patient data, and improve outcomes while reducing costly overlaps. These systemic issues can be best solved through the embrace of available technologies that can process aggregated patient data in a fast, reliable and secure way.

The Key to Better Healthcare Services is the Integration of Big Data

In May of 2016, The McKell Institute convened a roundtable discussion with key stakeholders in the healthcare sector, including private organisations, government bodies, and patient advocate groups, to discuss the challenges and opportunities associated with embracing *Big Data* in the healthcare system. Big Data is the umbrella term for large data sets that, when aggregated, can be used to ascertain trends that would be invisible to every day researchers, and in this case, healthcare practitioners. The roundtable discussed the legitimate privacy concerns that existed amongst many patients – certainly patient-doctor confidentiality is an unbreakable bond that any adoption of aggregated data would have to factor in. However, the roundtable did reach agreement on the benefits that would be derived from the aggregation of de-personalised healthcare data across the Australian healthcare sector. Another benefit of improving the way Australian health practitioners use data is orienting the healthcare system towards a proactive rather than reactive framework. Currently, the bulk of Australia's healthcare expenditure goes towards care rather than prevention. The widespread implementation of harmonised data sets could significantly improve diagnoses and lead to early intervention.

Embracing Healthcare Data Could Drive Efficiency and Lower Costs

Two particular data sets that have significant potential for harmonisation are that of the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS). These two data sets are amongst the largest in Australia, containing important healthcare data relating to the delivery of health services and pharmaceutical products across Australia. The McKell Institute's *Big Data and Healthcare Roundtable* discussed at length the value in making available to public researchers de-personalised, aggregated data collected by the MBS and PBS. In doing so, researchers would be able to access information that enables better targeted healthcare services to be identified, driving efficiency in the system, and lowering costs to government. The harmonisation

of the PBS and MBS data sets are but one of many opportunities associated with making depersonalised medical data sets available to researchers in the medical profession. This report recommends the government offers greater resources aimed towards the harmonisation of healthcare data sets, and enacts legislation that accommodates the security concerns of members of the community, whilst similarly ensuring benefits are derived for all Australians seeking high quality healthcare in the future. Although further analysis is required to quantify the exact economic benefit of big data integration, such international analyses have been undertaken.

In 2013, McKinsey & Company estimated that in the United States, a 17 per cent reduction in overall health expenditure could be realised through the strategic integration of data into the healthcare system.[75] If a similar efficiency dividend could be reached in an Australian context, total healthcare expenditure could be reduced from the current $154.6 billion per annum to approximately $128.32 billion in 2016 Australian dollars. This represents a total saving of up to $26.28 billion. Such savings could be reoriented into improving Australia's healthcare system overall, providing additional services, and extending services into areas of healthcare that are currently under serviced.

Bolstering Public Confidence in Data Retention Requires Clear Communication

Understandably, many Australians are concerned at the concept of data retention generally, and especially when this data is related to healthcare. The participants of the McKell Institute's *Big Data in Healthcare Roundtable* largely agreed that the benefits of the integration of Big Data into the healthcare system outweighed any genuine privacy concerns. Technology experts at the discussion noted confidence in contemporary technologies ability to depersonalise data to such an extent that identifying any individual's records is impossible. However, there was also an acknowledgement of the need to communicate this reality effectively to the broader public. Only by proactively articulating the beneficial outcomes of data integration in healthcare will governments be able to encourage public participation.

PRIORITY AREA 8

REFORMING THE AUSTRALIAN TAX SYSTEM

- **Recommendation 24:** Prioritise fairness and equity in the tax system to boost public confidence.
- **Recommendation 25:** Reorient the tax debate to one focused on outcomes and fairness over ideological frameworks.
- **Recommendation 26:** Proceed with the implementation of key ideas already circulating in public debate, including superannuation tax concessions, negative gearing reform, stamp duty reform, and other key recommendations of the 2012 Henry Tax Review.

Tax Reform in Australia is an Historically Challenging Area of Public policy

Reforming Australia's tax system is a notoriously challenging and divisive area of public policy. But while debate around tax reform is always arduous and politically charged, significant progress has been made in Australia's modern history that has led to big reforms that helped to modernise the Australian economy. Notable reforms occurred throughout the 1980's and 1990's, in response to a significant tax reform paper, the Asprey Report, which was released in 1975. But in recent years, few major changes to the tax code have been successfully implemented, with notable examples such as the Resource Super-Profits Tax and its subsequent Minerals Resource Rent Tax, and the Carbon Tax failing to achieve bi-partisan consensus and meet community expectations. Today, new reforms to the tax code are needed to ensure ongoing equity in the taxation system, and public confidence in government is restored.

The Tax Debate Needs to be Less Ideological and More Outcomes-Focused

While much progress has been made in the history of Australian tax reform, contemporary political debates around taxation often slide into partisan, ideologically charged policy proposals that do not address the fundamental requirements of the Australian people and economy. Too often, tax reform is debated in a simple dichotomy: on one side, advocates for free-market driven, 'lasseiz-faire' economics will always argue for a reduction in tax rates across the board irrespective of macroeconomic conditions, while on the other hand, advocates for more government expenditure too often call for significantly higher tax rates across the board, similarly irrespective of the broader international and national economic trends. In reality, a more nuanced debate is necessary, because under certain economic conditions specific tax reform proposals are more valid. In certain public policy areas, greater government expenditure and thus greater revenue is often required. In others, however, better outcomes can be derived from greater efficiencies driven through collaboration with non-government entities. By reducing the tax debate to a simple ideologically paradigm, outcomes are too regularly placed second to political debate and party principal. History has shown that wholesale tax reform in Australia has often been the result of political parties placing ideology second and adjusting public policy settings to the economic requirements of their time.

Australians are Evenly Split when Choosing between Social Services and Lower Taxes

In 2013, the most recent Australian Election Study, produced by the Australian National University, was released. The study surveyed thousands of Australians from across the country asking a range of questions regarding their personal preferences to specific governmental choices and circumstances. When respondents were asked whether they would prefer government to spend more on social services or reducing income tax rates, the results were relatively evenly split. 36.2 per cent of respondents preferred reduced income taxes over an increase in spending on social services. 30.4 per cent favoured the opposite position, preferring greater social expenditure over tax minimisation. Interestingly, 33.4 per cent said that their answer to this question 'depends'. What this demonstrates is that governments do have significant room to build popular support for an increase in government expenditure, or a pause in dramatic reduction in personal income taxes, if they believe doing so is central to good public policy making. Governments could build further support for the favorability of social expenditure over income tax reduction by making the entire system fairer, more transparent and more understandable for the public, which often feels the odds are stacked against it when it comes to the taxation system, and that they see little return for their tax dollar.

To Ensure Public Confidence in the Tax System, Fairness Needs to be Guaranteed

Central to improving the debate surrounding Australia's taxation system is improving public confidence in the fairness and equity of how Australians are taxed. In recent years, public confidence in the fairness of the taxation system has been rattled by news of large, multinational tax avoidance, and other unfair profit shifting tax avoidance schemes by wealthy individuals as well as large companies. Eroding confidence further is the fact that often the behaviour of the entities that avoid paying a fair rate of tax in Australia is not illegal, because government regulation has been too lax, and that tax reform options have not kept pace with the ingenuity of larger entities determined to minimize their tax burden. While these entities have the resources and capacities to find legal and technical loopholes to avoid paying their fair share of tax within Australia, average Australians of course do not. Rather, the vast majority of Australians pay their tax in good faith, expecting to be doing so on an even playing field. Public scandals such as the 'Panama Papers' tax avoidance scheme, which saw many global political leaders and public figures embroiled in a system that intentionally minimized their tax burden in their home jurisdictions, added to the public sentiment that there is something inherently unfair about how contemporary tax systems operate. Governments, therefore, must ensure that all individuals, local and international companies are paying a fair amount of tax.

Equitable Tax Reform Options are Already on the Table

Although significant tax reform has largely stalled in recent years, there remain multiple proposals aimed at improving equity and efficiency in the system within the public debate. The most recent wholesale review of the Australian taxation system was the *Australia's Future Tax System Review* (known informally as the Henry Tax Review) authored by economist Ken Henry and published in 2010.[76] The review tabled 138 recommendations aimed at reforming the tax system, and reorienting it to a space of equity, fairness and efficiency to build public confidence in Australia's tax system, as well as improving taxation outcomes. The majority of the tax recommendations tabled in the Henry Tax Review have not been implemented. However, this is not entirely surprising: the major tax reform paper in the 1970's, the Asprey Review, saw the bulk of its recommendations legislated over a lengthy period beginning in 1983.

The Henry Tax Review made important contributions to the public tax debate, and subsequently, other important proposals have been debated at the national level. Some of the key reform options for government that would orient the tax system towards a more equitable space include:

1. Ensuring the closure of tax loopholes, large-scale tax avoidance and multinational profit shifting.
2. Reconsider the magnitude of the capital gains discount concession.
3. Reforming the superannuation taxation system to discourage tax avoidance by wealthier individuals.
4. Reducing and eventually replacing payroll tax.
5. Orienting negative gearing concessions towards new properties only.
6. Reforming stamp duty tax to replace it with an optional ongoing land tax for property owners.
7. Reducing the small business tax rate to 25 per cent.
8. Placing fairer taxation on Australia's resource sector.
9. Granting tax concessions to new industries in the technology and renewable energy sector to encourage investment in the 'new economy'.

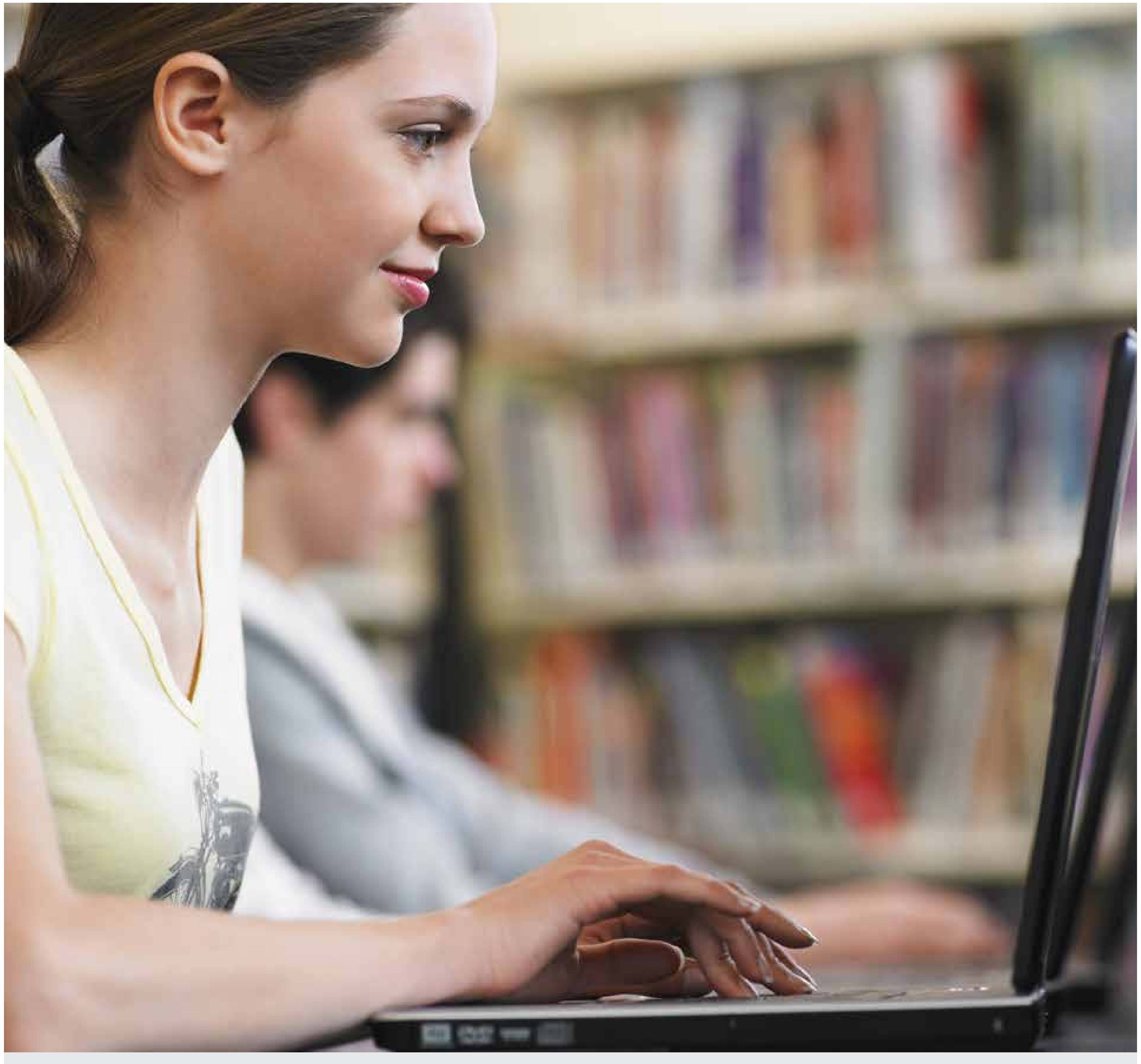
These tax reform proposals are not new, but are yet to be adequately implemented in Australia's taxation system. They include proposals to minimise the tax burden for certain industries and individuals to an extent that is suitable for contemporary economic conditions, as well as proposals to generate additional government revenue that can be oriented towards renewed government services. By fairly implementing such tax reform policies, not only will greater outcomes be achieved, but public confidence in the tax system will be boosted. It is vital that governments at both a federal and state level in Australia understand this contemporary necessity, and enact an appropriately bold reform agenda to meet this challenge.

PART 5:
HOW A BOLD REFORM AGENDA WILL LEAD TO SUSTAINABLE ECONOMIC GROWTH

Australia is experiencing a new and challenging time in its economic and political history. To perpetuate Australia's economic growth, and do so in a way that is equitable and sustainable, Australian governments need to embrace bold, contemporary policy agendas that address the determinants of inequality, wage stagnation and a lack of public confidence in government.

Previously in this report, the notion that Australia is the 'lucky' country was put in perspective: while Australia has experienced over two decades of growth and prosperity, this is the result of bold, creative, difficult public policy choices, not simply good fortune. Today, once more, Australia is entering a new phase of its economic development that requires new strategies to accommodate the contemporary domestic and global economic demands.

Ideally, sound economic policymaking should orient Australia's economy towards at least a 2 per cent growth rate per annum. Over a 35-year period, this results in an effective doubling of the real per capita GDP. Currently, long-term Australian trend GDP growth stands at approximately 0.9 per cent. Clearly, the policy settings seen today are insufficient in creating the equitable growth that is demanded.



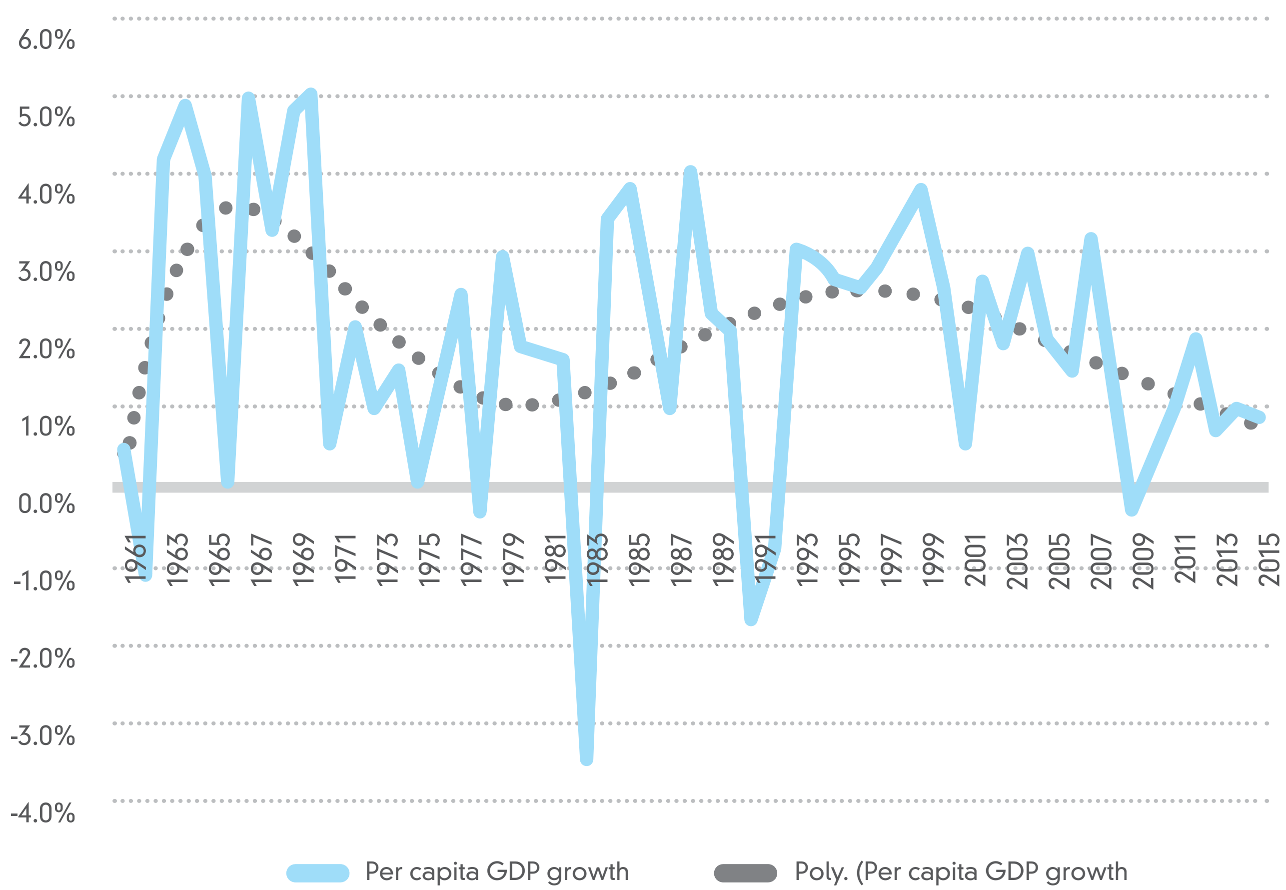
The Last Period of Great Reform Led to Long Term Improvements to Australia's Economy

The last period of sizeable, bold economic and social reform in Australia coincides with the Hawke-Keating era governments of 1983-1996. That time was one of enormous global economic and political change, and the government of the day – often with strong bipartisan support – enacted an agenda that reflected the needs of its time. While subsequent governments have undoubtedly also made significant contributions to Australian public policy since this era, it is reasonable to argue that the reform period of the 1980's to 1990's was the most dramatic transformation of the Australian economy in modern history.

The result was upward trend of growth in GDP over the period of government from 1983 to 1996. In 1983, trend GDP growth in Australia was at around 1.2 per cent. After over a decade of necessary, bold economic and social reforms, this trend had grown to 2.5 per cent. It is clear that, irrespective of partisan politics, incumbent governments today need to enact a suite of reforms of similar magnitude to achieve a return to a desirable economic growth figure. But in doing this, the equality of citizens must be prioritised, services must be made more efficient and affordable, and inequality must be reigned in to ensure working Australians do not feel disenfranchised.

FIGURE 13

Real per capita GDP growth with trendline between 1962 and 2013. This demonstrates the positive trend of GDP growth in the reform period of 1983 to 1996.



We believe that the priority policy reform areas outlined in this report are central to returning Australia's economy towards the necessary economic growth figure, and will do so in a way that helps ensure the equality of opportunity for all Australians.

If the suite of policy proposals in this report led to a similar return of economic growth rates seen in Australia between the mid 1980's and 1990's, real per capita GDP could be up to 72 per cent higher in a generation. Of course, accurately predicting exact growth figures over extended periods into the future is inherently challenging. However, what is clear is that sizeable public policy reform agendas are central to ensuring long term equitable economic growth.

The great challenge of contemporary public policy making in Australia is orienting the national economy towards a more prosperous, more equal place that facilitates greater opportunity for all Australians, and avoids disenfranchising large sections of the Australian population. This report offers such a suite of recommendations that will help boost public confidence in government, improve governance outcomes, increase government revenue and lead to more equality and a prosperous Australian economy.

CONCLUSION

The Australian economy remains strong, but is facing challenging circumstances that risk undermining the core principal of equality of opportunity that the country is based upon. The historic success of the Australian economy is something that should be celebrated – but not at the expense of a continued and vigilant reform agenda that aims to ensure better access to and the future growth of Australia's middle class.

This report has highlighted the potential of growing Australia's middle class and extending greater opportunity to those striving to enter the middle class. It is vital that social mobility is entrenched in the Australian social and economic contract and that future generations of Australians enjoy a continual increase in living standards and opportunity. This is not only sound social policy, but necessary economic policy. A strong and growing middle class enables Australia's economy to continue to grow, enabling Australia to remain globally competitive in an increasingly challenging international economic environment.

The policy platform articulated in this report also aims to alleviate many of the pressures on working Australian families, eliminate many of the stresses and concerns so many working families face, and demonstrate that through sensible but creative public policy decisions, the fair, equitable and prosperous Australian economy that many Australians have enjoyed will continue to be present for future generations.

By focusing on these key areas of reform, governments can ensure Australians enjoy stronger wage growth, more equitable and stable superannuation, continued access to a world leading education, more affordable housing, equal access to vital transport services, opportunities to upskill and embrace a new and dynamic Australian economy, and enjoy higher quality more efficient healthcare services.

Australia's middle class prosperity is the key to Australia's economic future. Now is the time to embrace a creative and targeted new reform agenda that places the growth of Australia's middle class, the promise of social mobility, and equality of economic opportunity front and center.

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